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Preparing for Tomorrow's Social Policy Agenda

New Priorities for Policy Research and Development That Emerge From an
Examination of the Economic Well-Being of the Working-Age Population

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Summary

The paper is intended to identify the topics that are likely to be on the policy agenda in about five years' time and to propose new types of policy development work that could begin now in order to prepare for such an agenda. While the paper is primarily about policies that support the economic well-being of working-age people, a broad definition is taken and the paper covers much of social policy.

Canada's record has been good

Compared with other countries and our own past, Canada has had good success in achieving high levels of economic well-being. We have good scores on most of the components of the Index of Economic Well-Being, the best measure available:

- We score well on personal consumption — although material living standards have lagged behind those in the United States. (Employment and productivity — the two determinants of the size of the economic pie — have both been lower here, although employment has been growing strongly over the past year.)
- We also score well in terms of the sustainability of our stocks of wealth. This includes many measures of human capital — the skills of Canadians.
- In terms of equality, there have been huge improvements for older people and women, and these have not resulted in large losses elsewhere, although some concerns exist about the position of younger men in the labour market.
- There is a mixed record on economic security. People do not stay poor or unemployed for long, but there has been a high level of unemployment.

Lying behind those averages, there has been a growing share of persistent disadvantage in five high at-risk groups: people with work-limiting disabilities; recent immigrants; unattached people aged 45 to 59; lone parents; and Aboriginal people. Most child poverty is located in these groups. In per cent terms, there is very little persistent poverty outside these groups.

Canada's position, like that of any other country, looks better or worse depending on the measures used. For example, things look worse when we examine wealth inequality and consumption poverty as opposed to the standard measures of income inequality and income poverty. There has been a worrying polarization of market income (mainly in hours worked) for the young, especially during the 1990s. On the other hand, things look less problematic using other measures. Many concerns in the United States about neighbourhood effects, intergenerational transmission of poverty, and earnings polarization are less of a concern here.

But different policy interpretations are possible

The trend data can support an optimistic reading of future policy implications. In this view, the fact that past trends have been positive compared with the other countries and our own past is emphasized. The main exception has been the gap in material living standards with the United States but, taking account of all components of economic well-being, we still score higher than the United States. As in any country, there are always problems — inevitably so since the

measures are defined in a relative way. However, the big issues have been addressed, and in the right order — pensions, Employment Insurance reform, children’s issues, and now the skills agenda. The fundamentals are strong in terms of our human capital, and our economic and fiscal positions. People and markets have been adjusting reasonably well, particularly in the last several years.

A pessimistic reading is also possible. While past success cannot be denied, some would argue that this success reflects past social investment mainly — and that we are not renewing that investment. For example, the 1960s and 1970s saw a quadrupling of our post-secondary capacity and the introduction of a relatively generous income security system. There have been no comparable recent investments and, indeed, in the fiscal climate of recent decades, there have been cut-backs in the social infrastructure. Further, in this reading, the only real point of comparison over the longer run is with material living standards in the United States, despite its very recent economic difficulties, there are few signs that Canada is closing the productivity gap.

The paper therefore outlines a policy development agenda that is broad enough to support both optimistic and pessimistic readings.

The forces that will drive tomorrow’s policy agenda

Three forces are likely to dominate policy making in about five years’ time: a continuation of the competitiveness and social cohesion pressures that have resulted in today’s preoccupation with lifelong learning; a new concern about a decline in percentage of the total population that will be employed; and a new shift towards incentives to later retirement.

The relentless pursuit of lifelong learning

The current policy focus on human capital, skills, and childhood development will continue to make sense in the medium term, where it can be best captured in terms of filling gaps in the learning system. The broad agenda as described in Canada’s Innovation Strategy should continue to provide a reasonable balance between economic and social goals.¹

The paper contains a discussion as to why learning is a safe response against an uncertain future. It is key to combining competitiveness with social cohesion. The paper lays out an explanation as to why we need to keep investing in learning just to maintain Canada’s position compared with other countries. Learning is a key response to existing problems (too early retirement, disadvantages faced by younger cohorts of male workers) and even to unlikely future problems (lack of jobs, polarization). As well, new technological developments hold promise of dramatic future gains in the effectiveness of investments in learning.

Increasing the producer-consumer ratio

Two new developments are also likely to drive tomorrow’s policy agenda. One is a major change in the ratio of producers to consumers. For decades, there has been a strong trend towards an increasing percentage of the population that is employed and producing the goods and services that are the basis of our economic well-being. This trend is the result of a dramatic increase in the number of women in the workforce in conjunction with a demographic change — the large baby

¹When referring to “Innovation Strategy,” the paper is referring to “Canada’s Innovation Strategy,” which is presented in two federal government documents, *Achieving Excellence: Investing in People, Knowledge and Opportunity* and more particularly *Knowledge Matters: Skills and Learning for Canadians* (HRDC, 2002). Both papers can be found on the Web at www.innovationstrategy.gc.ca.

boom generation has been of working age. All this is likely to change in about 5 to 10 years' time as the baby boom generation starts retiring in earnest.

The retirement of the baby boom generation — and consequent possibility of labour shortages and a falling share of the population producing goods and services — are likely to dominate the medium-term agenda. The economic and social climate will begin to shift in fundamental ways.

Retirement incentives and the reallocation of leisure

The other new driver of change is closely related: expected changes in retirement incentives. The baby boomers who will be retiring in 5 to 10 years' time will, compared with yesterday's retirees, be healthier and have a much longer life expectancy after retirement. They will be more highly educated and hold post-materialist values favouring an active life in society. As well, they are more likely to face a labour market that will want their participation.

In the absence of a shift to later retirement, there will be continued growth in the extraordinarily large pool of leisure that has been building up among retirees, where it is mainly passive, unhealthy, and often unwanted — and a growing source of social exclusion. There would be many potential gains if people had the choice to spread work, learning, caregiving, and leisure more rationally over their lives.

Main new strands in the policy response

It follows that today's human development and skills agenda as described in Canada's Innovation Strategy will likely continue as a dominant theme in the policy response for many years. In the medium-term, the emphasis shifts to learning (not skills) and to ways of translating the rhetoric of social investment into operational programming. The fundamental directions are likely to continue to be on early childhood development and child care, on higher generic skill levels across the skills spectrum — especially in the bottom portion of this spectrum, and on finding incentives that encourage learning in people's "working" years.

These learning and human development topics are already part of the government's agenda and they are, in consequence, not discussed at length in this paper — although there is a closely related discussion of building a capacity that allows social investments to become effective.

Instead the paper concentrates on four newer strands of the policy response to these drivers of change. While these strands can be woven together in diverse ways, they are all likely to be present, in some form, in any reasonable package of medium-term policy reform.

Towards life-course flexibility — with more work and learning

Today policies squeeze work into a shorter period in the middle of life — as the result of their encouragement of longer schooling and earlier retirement. And efforts to increase mid-career learning, or time-off for caregiving, mainly come from time that was formerly allocated to work. That is, a continuation of existing policies would compound, not solve, the emerging demographically-driven problem of the falling producer-consumer ratio.

Tomorrow we should take account of the win-win potential of the largest pool of time that is available for reallocation — leisure in retirement — and use it to devise policies that simultaneously address:

- the longer-term goal of life-course flexibility. This means providing individuals with greater choice in the duration, intensity, and scheduling of work; learning; caregiving; leisure; and cultural and non-market activities over the entire course of life (not just work-life flexibility);
- the medium-term goal of increasing the total time devoted to work and learning — and facilitating caregiving during the periods when people are primarily working and learning. That is, the freed-up leisure in retirement cannot be simply reallocated to leisure at other stages of life.

What needs to be done? We should work now to prepare for a major consultative exercise on ways of accomplishing these goals. This would involve an assessment of the likely effects of changes in the many policies that affect the retirement decision and life course flexibility. A good deal of the policy analysis has already been started, as with policies for older workers. As well, we should act now to fill a gap in our longitudinal data as it relates to the work-retirement transition.

Towards life-course and asset perspectives

Today income-at-a-point-in-time concepts still dominate income security policies. Active, preparing-for-life policies are mainly in separate, and fragmented systems — education, labour market integration, etc.

Tomorrow there should be a more integrated, preventive approach within a new policy envelope consisting of income security, learning, and labour market integration policies — with an overall goal of social inclusion over the course of life (both fighting social exclusion and providing the resources that allow people to live up to their potential in both the economy and society).

“Income plus a range of assets over the course of life” thinking will become dominant. Assets include human capital (which already has high weight, but will become an even more dominant element as trampoline features are increasingly introduced into safety-net programming). In addition, increasing emphasis will be placed on other assets — housing assets, financial wealth, information resources, and (perhaps) social capital, and civic spaces:

- Within skills acquisition and labour market integration policies, there should be a shift to integration across life — filling lifelong learning gaps.
- Within safety-net policies, there should be a new focus on tackling persistent problems — including those that endure over life and into subsequent generations, with more reliance on individuals and families to deal with low income or economic insecurity that is of short duration and non-recurrent.

What needs to be done? Existing equality and security perspectives based on “income at a point-in-time” concepts and data are deeply entrenched in our policy designs, our values, and even in the language that we use to discuss policy. What is needed is series of strategic planning studies that clarify that language and that explore a range of new ways in which policy could address social inclusion — including both radical changes in directions over the long-term and frameworks that could guide the incremental changes that are more likely to dominate in the medium term.

One study should explore new ways of reaching the most vulnerable groups. Some quite radical new directions are suggested. These include exploring the potentially large consequences of life-course perspectives, the consequences of the concentration of persistent exclusion in five at-risk groups, and different approaches to matching caregiving with care-receiving.

A second strategic study would explore the consequences of including a wider range of assets along with income and human capital in our policies. Again, the potential effects are very large.

A third strategic planning exercise would explore the intriguing parallel policy universe of lifetime accounts. Lifetime accounts provide individuals with resources that can be used over the course of life to finance retirement, learning, spells of unemployment, child or elder care — or virtually any purpose that is now served by point-in-time income policies. They can be used to privatize existing public policies or to strengthen collective social cohesion, depending on design features.

Lifetime accounts are intriguing because they are, in principle, much better adapted to life-course and asset-based approaches. They should be more efficient and flexible. On the other hand, they also present tough design challenges such as finding ways of moving away from existing arrangements without creating losers in the transition period. And they do not always provide better answers than do existing arrangements.

Canada may have fallen a little behind other countries, such as the United States and the United Kingdom, in developing life-course, asset-based approaches. However, the gap is small and this paper contains suggestions on how Canada might leapfrog ahead.

Towards a new capacity for making social investments effective

Today policy has the underlying goal of social investment (getting payoffs in the future). However, policy designs are actually based on expenditures (getting payoffs in the present).

Public expenditures (whether transfers, direct spending or grants and contributions) are, today, assessed in terms of immediate or short-term effects. For example, we make transfers to individuals that might bring those individuals over a low-income line. We provide services that support welfare-to-work transitions. We provide educational facilities to bring people up to a certain level of skills attainment.

Tomorrow we should bring policy designs into line with their underlying social investment goals. This means switching to policies that learn over time by automatically incorporating lessons from what is working best. These policies are driven by specific calculations of expected returns later in life, for example

- calculations of how the skills acquired by individual clients would be expected to be used, and rewarded, subsequently in the labour market and later life.
- calculations of the extent to which policies can be expected to help their beneficiaries avoid persistent poverty or disadvantage, including over the later course of their lives.

This information should be packaged so that it can also be used in prevention — enabling individuals, families, civil society, and employers with the information that allows them to make effective investments in skills.

What needs to be done? The technology to allow the calculation of expected returns has been developed in prototype for active labour market programming, but requires further work that is described in this paper.

As well, major new statistics need to be collected on how skills are acquired, used, and rewarded. Finally, more experimentation is needed with new kinds of social intervention. This paper outlines some of the specific steps that could be taken.

It will take many years before social investment and automatic “learning-from-experience” programming can become fully operational. However, considerable progress can be made in this medium term, including in the area of life-course transitions programming — allowing people to make much more effective transitions from unemployment or welfare to work, or get better jobs through training. Again, this is an area where Canada has a comparative advantage in terms of the needed developmental work — with several years’ head start over other countries.

Towards accountability: A data-based marriage of decentralization and horizontal integration

Today by world standards, Canada has a good record on both vertical integration (balancing decentralization with ministerial accountability) and horizontal integration (harmonized action across program streams). At the federal level, for example, Human Resources Development Canada (HRDC) has been a world leader in integrating Employment Insurance, active labour market policies, the labour exchange, and in supporting school-work, work-parenting and work-retirement transitions.

That success resulted from organizational mandates and management structures within HRDC and its predecessor departments that allowed both the vertical and horizontal dimensions to be pursued simultaneously. The tools were not developed that would have allowed such simultaneous integration when more than one actor or order of government were involved. During the 1990s the need to strengthen linkages with provinces, social partners, and civil society became increasingly evident.

Tomorrow complexity will increase greatly in response to pressures for greater horizontal integration (including with policies in different ministries and orders of government and crossing many traditionally separate health and social disciplines). As well, the shift to life-course and social investment approaches greatly increases the number of players with a stake in the system and the complexity of dealings among them.

What needs to be done? What is needed is a consultative process that involves all partners — including groups representing the clients of the policies — in order to regularly review the activities and accomplishments of the system as a whole and the plans of the various participants. Much richer common data, including data on outcomes, is the correct glue to hold such a system together. This paper contains suggestions as to why this is a significantly better approach than the more traditional one of setting goals and using indicators to measure performance towards those goals.

This paper outlines a series of steps that could launch such an evidence-based system of consultation and accountability. The process would not be simple. However, the payoffs in terms of the effectiveness of social investment and system-wide accountability for outcomes are potentially huge. And Canada is in a position to reap these payoffs faster than most other countries.

Planning for an uncertain future: Three scenarios

Prudence demands that policy research and development be consistent with a wide range of plausible future policy directions. The development work proposed in the paper is designed to support policy-making that could lead to three quite different scenarios about the future:

- “Life Is Learning,” the baseline scenario, puts the main emphasis on a continuation of today’s focus on investing in skills and lifelong learning for all — on the fundamental human resource assets that underpin successful economic and social policy. It is consistent with a future social, economic, and political environment that looks quite a lot like today’s.
- “Life Is a Job” is an alternative scenario. It concentrates on the importance of paid work as the ultimate source of economic well-being — on the market mechanisms that promote efficiency and competitiveness in the search for economic well-being. It is consistent with an even greater emphasis on the market and on fiscal restraint.
- “Life Is Citizenship,” the other alternative strategy, puts more emphasis on the interrelation among the various domains of life, including caregiving and the non-market domains of society as well as jobs and learning — on the outcomes of a society and economy that works for everyone. It is consistent with greater collective effort in building social infrastructure — particularly around housing and caregiving of children and seniors, including a concern about fertility levels.

The paper describes these scenarios at some length, including their consistency with changing values, with likely fiscal environments, and with pressures towards North American policy convergence. It also shows that Canada may have been more cautious than other countries in using its policy research and development to explore new directions. This should be rectified.

Adding to the policy tool-kit

The final part of the paper is a more practical elaboration of the policy work that could be undertaken in support of the medium-term policy agenda, particularly the policy research and development needed to support the new strands of the policy response. It provides many details and considerations that could be of use in subsequent planning. Overall, the proposed work would develop the tools to

- support the most important items that are likely to be on tomorrow’s policy agenda — including preparing the background information to be able to act quickly on what is likely to be the most urgent priority — reversing a decline in the ratio of producers to consumers through later retirement;
- put in place a much stronger capacity for making social investment effective (with the possibility of large medium-term payoffs in some areas) and the closely-related task of building an evidence-based system of coordination, planning, and accountability around a new “economic well-being policy envelope,” as described above;
- collect the statistics that would be needed to support effective social investment and the new system of coordination, planning, and accountability;

- provide future policy-makers with the flexibility to move in a wide range of directions — including a continuation of existing Life Is Learning directions or a more fundamental shift towards major alternatives in the form of Life Is a Job and Life Is Citizenship;
- provide those policy-makers with the tools to move in any of these directions either gradually or by larger reforms — as the conditions of the day will dictate.

A virtuous circle on the horizon

The paper concludes by suggesting that, assuming the necessary development work is undertaken, we could face the happy prospect of a virtuous circle in about five years' time. It seems quite plausible that a combination of demographic, economic and labour market factors, supported by policy change, will allow major gains in attaining both economic, competitiveness and social inclusion goals. And that can be done in a way that is consistent with changing public values, with gains for citizens in all main demographic groups, with fiscal and jurisdictional realities, and with large gains in policy effectiveness.

Everyone seems to win. How can that be possible? The answer lies in the likelihood of several factors coming together in a particularly fortuitous manner in this time frame: the favourable demographics; a starting point where Canada's social and economic house is in good order; strong comparative advantages in key areas of policy development; and, particularly important, the win-win opportunity to exploit the huge untapped resource of time in older age groups.

Chapter 1

Scope of the Paper

This paper provides a broad, somewhat speculative, look at what, in about five years' time, is most likely to be on the agenda of policy-makers concerned with the economic well-being of the working-age population. The paper concludes with preliminary ideas for new policy action that could be undertaken in the next several years in preparation for such an agenda. Many existing policy research and development activities will continue to make sense for many years; the focus of the paper is on newer kinds of work that can best complement these existing initiatives.

1.1 The working-age population

Care is needed in defining what is meant by the well-being of the working-age population. The length of people's working years is determined, in part, by the policies under review here. Income security, educational, employment, and retirement policies/trends play a major role in determining the effective ages of entry and exit from working life.

As well as affecting the duration of working life, policies and trends primarily directed to older and younger people have major effects on the economic well-being of people during their working years:

- The success of lifelong learning policies for workers depends considerably on initial education policies. Policies for children are, in reality, indistinguishable from policies for working-age parents.
- People's economic well-being encompasses current satisfaction and provision for future well-being. The risk of being poor in old age is an important factor in the economic security of people well before they retire.
- Some of the most important policy issues surround the borders between school and work and between work and retirement. It is at these boundaries where large adjustments take place and where policies are likely to have considerable leverage. For example, changes in effective retirement ages can have a larger influence on the age/skill structure of the labour force than does the demographics.
- Some of the more innovative policy proposals — such as lifetime accounts — deal with the whole life-course and reject breakouts such as working age versus retirement age.

Therefore, the paper encompasses trends and policies that

- are explicitly addressed to the economic well-being of workers (Employment Insurance, Social Assistance, or Workers' Compensation);
- may have large effects on people at the borders of work and school/retirement; and
- have large effects on the economic well-being of people in their middle years — even if those trends/policies relate to younger or older people.

1.2 Economic well-being and social policy

Economic well-being can be defined narrowly, such that the policies under review are income security policies (e.g. Employment Insurance, Social Assistance, and tax expenditures) together with closely-related policies designed to keep people off Employment Insurance or Social Assistance (e.g. active labour market or make-work-pay initiatives).

It can also be defined broadly, because economic well-being should not be divorced from overall well-being. This corresponds with the policy argument that it is important to integrate income security with other elements of social policy including health and learning and to consider social and economic policies as complementary tools.

The broadest approach, while more intellectually satisfying, would result in analysis that would be too diffuse, and would cross the mandates of too many policy agencies to be useful. On the other hand, we cannot deal with issues such as human capital, social capital or social inclusion without taking a broad definition. It is in these areas where much current policy attention lies.

Economic well-being can also be examined from macro and micro perspectives — that is, from the perspective of society as a whole or from the perspective of individual members of that society. The macro perspective is most helpful when making comparisons across provinces or countries and for examining issues such as the links between economic well-being and economic competitiveness or the distribution of income in a society. The micro perspective makes more sense when looking at perceived well-being and for examining issues of personal economic security including the role of various types of assets and resources in providing that security.

The proposed compromise is to

- use broader concepts (citizenship, social investment, inclusion etc.) that do recognize the tight social and economic linkages among income, skills, health/disability, and that do not fragment the various dimensions of well-being;
- base the analysis on the more comprehensive macro economic well-being framework;
- supplement the analysis as required by referring to the role of assets and other determinants of personal income security and to the way in which people perceive their well-being; and
- within that very broad framework, concentrate on policies with direct social content, namely income security and labour market integration policies and policies associated with skills and learning.

1.3 Time frames

The paper has a medium-term time perspective. It examines the policy issues that are likely to be on the table of policy-makers and their advisors in perhaps four or five years from today.

Such a medium-term policy perspective often implies a somewhat longer-term analytic perspective since those policy-makers will themselves be thinking of the implications of their policy choices some 5 or 10 years beyond that. In some cases, an even longer-time frame is necessary — particularly for policies that are affected by aging populations (e.g. the skill mix in the labour force is driven, in part, by longer-term demographic trends) or that involve education or early childhood development where full effects occur only many years after the intervention.

These time frames mean that the paper must necessarily deal with scenarios and ranges of uncertainty, as opposed to projections. Virtually nothing of interest to policy can be projected with any degree of certainty that far in the future.

Chapter 2

Social Cohesion and Economic Well-Being: Where Do We stand?

2.1 Overview

Measuring economic well-being is difficult — but Canadians do it well

The mandate of the paper is to explore the economic well-being of working-age Canadians in order to propose new policy development work that is likely to help future policy-making in this area. It is harder to measure changes in economic well-being than it might initially seem. At the level of an individual, the concept would seem to be well-captured by changes in the goods and services that the individual consumes. In consequence, at the collective level the appropriate measures would be something like GDP per capita.

It is not that simple, of course. Not all of GDP is consumed by individuals in the usual sense of the term. And measured increases in the quantity and quality of the goods and services that are consumed do not result in proportional gains in perceived well-being. People do not feel twice as good if they have two cars rather than one car. After a certain point, people will often prefer more leisure than more goods and services. Wealth — the capacity to purchase goods and services — may be more important to well-being than the actual consumption of those goods and services. More generally, perceived economic well-being is determined in large part by an individual's capacity to manage the risks that threaten that well-being over the course of life — unemployment, homelessness, poverty in old age, etc.

At the level of society, distributional issues come into play — the existence of groups that are excluded from the mainstream economy or the extent of inequality in the distribution of income and assets. As well, issues of sustainability become important. We are better off collectively if we maintain and increase our capacity for future well-being — as opposed to running down our natural resources, our physical and social infrastructure, or our environment. And, in policy terms, the measures should not be solely backward-looking but should also measure those things that, with appropriate policy support, can lead to improved well-being in the future such as investments in human and social capital.

Finally, there are issues about points of comparison. Are we increasing our economic well-being relative to some absolute standard, to the experience of other countries, or to our own past? And, if compared with our own past, should the comparison be based on broad averages of the whole population? Or should the comparison be based on people in the same age cohort, or on people with similar characteristics — such as older people, or children, or women? Quite different answers emerge depending on the choices made.

Canadians have given much thought to these issues and have often taken a lead in measurement. This paper builds on that strength.

How are we doing?

Section 2.2 opens by outlining two very different approaches to indicators. One is the high profile set of indicators designed by the Conference Board of Canada to compare Canada with other top-performing countries as it relates to competitiveness. The other is a set of indicators,

which are produced by the Canadian Policy Research Networks, that attempt to capture people's views on quality-of-life indicators.

Section 2.3 then turns to what is, almost certainly, the most analytically powerful set of measures for purposes of this paper — the Index of Economic Well-Being. It has about the same scope as this paper and provides a conceptual framework for exploring the determinants of economic well-being at the macro, society-wide level.

The fourth section extends the story by taking a closer look at the role of assets, consumption, and measures of subjective economic well-being.

The story to this point is based on an analysis of broad averages and is fundamentally positive, with a few worrying notes on some component measures. Those averages, however, hide large groups of winners and losers and a surprisingly high concentration of disadvantage in specific high-risks segments of the population. The fifth section examines distributional issues.

The challenges for policy

The final section concludes by showing that the data presented are consistent with quite different policy readings. In one interpretation, things have generally been working well and a continuation of incremental policy changes seems the best prescription for the future. However, the data are also consistent with a pessimistic interpretation that suggests that success has resulted from past social investments that will not be there to respond to tomorrow's policy challenges — unless we begin to follow a more radical path of policy renewal and reform. The section concludes by outlining the analytic approach that will be taken to deal with such contradictory readings.

2.2 Conference Board of Canada's benchmarks and CPRN indicators

There are many indicators that can be used to study economic well-being, as illustrated by the two very different approaches shown in this section. Table 1 shows the results of the Conference Board of Canada's benchmarking (the Top 40 Indicators) for 2001. Compared with six of the best-performing countries in the world, Canada's economic performance is average, but that still means that we are among the best in the world on a wide range of measures:

- However, the United States performs significantly better overall and, as our economies integrate, the American comparison is often of greatest relevance.
- Other countries do better than us on most particular measures — meaning that there is room to learn.

The table breaks out those component measures that are of greatest relevance for this report:

- Canada's record is poorest on some of the measures that are *outside* the scope of the policies of this report — innovation and the environment. It is strongest on labour market measures, apart from unemployment.
- With regard to skills, educational attainment, and computerized classrooms we are good, but we have poor literacy and math scores — pointing to quality problems in the education system. Participation in adult education is low.

Table 1: Canada's Performance Compared With Six High Performing Countries (Selections From the Conference Board of Canada's Top 40 Indicators, 2001–2002)

	Top Performer	Average Performer	Poor Performer	Country With the Best Record
Performance of economy^a				
Average of 6 measures ^a		○		United States
GDP per capita		○		United States
Manufacturing productivity	★	○		United States
Manufacturing unit labour costs	★			Australia
Debt-to-GDP ratio			×	Norway
Labour market performance				
Average of 4 measures	★			United States
Employment growth	★			Australia
Unemployment rate			×	Norway
Long-term unemployment	★			Norway
Gender income equality	★			Sweden
Innovation				
Average of 6 measures			×	Sweden
Environment				
Average of 4 measures			×	Sweden
Health and society^b				
Average of 12 measures ^b		○		Japan
Life expectancy		○		Japan
Potential years of life lost	★			Sweden
Poverty	★			Sweden
Child poverty		○		Sweden
Education and skills				
Average of 8 measures		○		United States
Incidence of high school completion	★			United States
Post-secondary completion	★			Canada
Computer access	★			Sweden
Employer-sponsored training		○		Sweden
Unemployment of university graduates			×	Norway
Literacy skills			×	Sweden
Mathematics test scores			×	Japan
Participation in adult education			×	Sweden

Source: Conference Board of Canada (2001).

Notes: ^aInflation and the deficit-to-GDP ratio are excluded from the detailed listing as outside the scope of social policy. The debt-to-GDP ratio is retained to mark a critical constraint on social spending.

^bSpecific disease rankings excluded from detailed listing as outside the scope of this paper. Longevity and potential loss of years are included as the correlations with education and income and occupation are high. Child poverty is included because it reflects the income of the working-age parent.

Any such simple score sheet is open to criticism on specific points. In particular, one can quarrel with the Conference Board's diagnostic as it relates to education and skills. For example, the Appendix to this paper provides more recent data that show quite good scores in the school system on math and literacy. As well, by some measures, adult training is not as bad it appears here — although formal training is, in any event, likely a poor proxy for adult learning, as is again described in the Appendix.

Measures based around people's views: The CPRN Indicators

The Conference Board measures are about economic competitiveness. Other measures are being developed that start from a different reference point — what Canadians themselves view as being important indicators of the quality of their lives. The Canadian Policy Research Networks (2002) has, for example, compiled a set of indicators that reflects people's perception over a broad range of topics — much broader than the scope of this paper. It scores a wide range of 40 indicators according to whether, over the period 1990 to 2000, things got better, worse, or stayed the same.

For example, in areas that touch on this paper, things got better in

- unemployment and labour force participation;
- sense of personal security; and
- availability and affordability of child care.

Results were mixed or there was no change for

- job security, satisfaction, and working conditions (job satisfaction and job security scores were generally high);
- sense of personal financial security; and
- levels of disposable income.

And things got worse for

- the distribution of income and wealth;
- low income rates; and
- living wages.

Overall, the indicators portray a mixed picture of progress, but are more positive than suggested in much of the recent literature, which has been heavily focused on the economic downturn of the 1990s. The more recent data look better. This points out the considerable dangers of making comparisons over the short term and of not taking into account the consequences of the normal ups and downs of the economy.

The Conference Board and the CPRN indicators were used to provide context for the analysis that follows and to highlight the wide range of possible approaches. Given the mandate of this paper, however, we need to find indicators that are narrower — that focus more directly on economic well-being.

Another set of indicators is available — the Index of Economic Well-Being — that, while imperfect, is closer to the scope of the paper. It also has a large analytic advantage over most alternative schemes in that its component indicators can be combined to form a composite indicator of well-being. This allows much deeper comparative analysis.

2.3 The components of economic well-being

The Index of Economic Well-Being² throws useful analytic light on changes in economic well-being. It is fundamentally a macro indicator that is useful in making comparisons across societies — for example, among provinces or across countries. However, it also contains many of the elements that are needed to make micro comparisons of, for example, personal economic security — although the index would need to be re-weighted to do that well.

In common with most other aggregate indicators of well-being, the index is on a gradual upward path until the 1990s where it flattens out and falls a little. Unlike most other measures of well-being, the index is a systematic aggregation of a large number of component and sub-component measures that allows particularly useful analysis. The chart is cluttered, but warrants a careful look:

- Among the components of the total index, the index of personal consumption continues to rise, reflecting the underlying increase in GDP per capita, which reflects technological progress and a large growth in the percentage of the population that is employed (and producing that GDP).
- The index of stocks of wealth (the “sustainability” portion of the index) follows a similar pattern.
- Working in the other direction is the component related to income security, which has been getting worse reflecting increasing insecurity associated with unemployment.

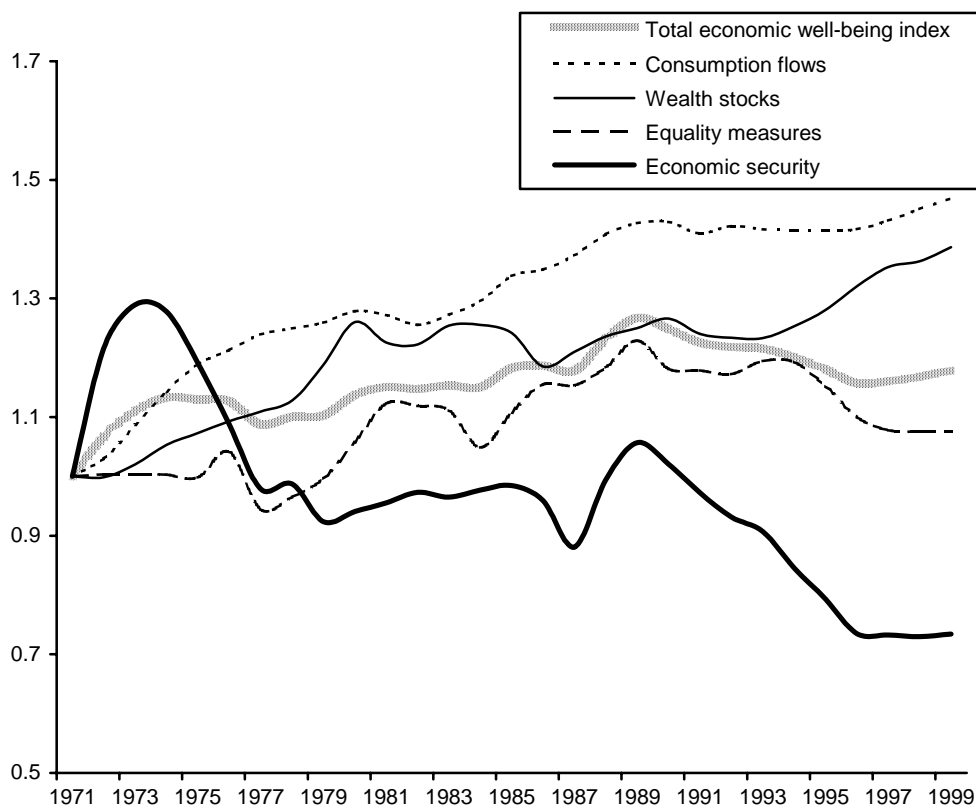
Inequality trends have been, on average, generally flat for 20 years. See below, however, about the problem of looking only at broad averages.

The index corresponds reasonably well with intuition. The selection of component measures and the weights attached to each is, inevitably, arbitrary. So it is important to ask if the index and its components “feel right.” This is particularly so since we are putting an unfair burden on the index — using it as a general guide to progress on both the macro and individual dimensions of well-being, when it was only designed for the former.

In a developed economy such as in Canada with a mature set of social institutions, one would not expect to see rapid changes over time in something so fundamental as economic well-being. At the total level, the Index of Economic Well-Being has indeed been quite flat over the last three decades, but showing a small improvement. It feels about right.

Figure 1: Index of Economic Well-Being

²The index is produced by Osberg and the Centre for Study of Living Standards. (See Osberg and Sharpe, 2002 and also the detailed papers on CSLS web site.) Four factors are measured: effective per capita consumption flows (also including per capita flows of household production, leisure, and other unmarketed goods and services); net societal accumulation of stocks of productive resources (including tangible capital, housing stocks, human capital accumulations, social capital, R&D investment, and change in foreign indebtedness); income distribution (including depth and incidence of poverty and inequality of income); and economic insecurity (from unemployment, ill-health, single parent poverty, and poverty in old age).



Source: Osberg and Sharpe

On the other hand, there is more movement in the sub-components than might be expected. Have we really become 40 per cent better off in personal consumption — in our standard of material well-being — in only 30 years' time? The index has been adjusted in various ways to remove the huge overstatement of well-being gains that are found in cruder measures such as GDP per capita. Nevertheless, the gains shown still might seem high³ for a period that was marked by cyclical down-turns in the economy as well technological progress.

One would expect the greatest movement in the sub-components to be in economic insecurity, which should reflect cyclical ups and downs. This has certainly proved to be the case. Yet the downward trend in this measure over the past 30 years seems unreasonably steep, given the relatively small change in the durations of long-term unemployment and job tenure that has taken place over this period. As well, during this 30-year period, perhaps the major source of insecurity in Canada — poverty in old age — was largely overcome. One problem with the measure appears to rest on an undue weight given to the coverage of employment insurance.⁴

³In part this may simply be a reflection of the fact that, after a certain income level, gains in perceived economic well-being are much less strong than would be indicated by actual increases in consumption. See the next section for more on perceived well-being. For the macro purposes for which the index was intended, perceptions of economic well-being are irrelevant and the index makes sense as it stands. However, in this paper, we are going beyond this macro perspective to also discuss issues at the level of individuals, including the actual well-being or happiness that results from greater personal consumption.

⁴The measure of economic insecurity (and indeed the entire Index of Economic Well-Being) has been considerably shaped by a sub-component measure that shows the per cent of the unemployed that are covered by EI and by the use of a multiplicative methodology for combining sub-components that results in great volatility. While no longer being eligible for unemployment insurance is unquestionably an added source of insecurity for some, the large effects of this component measure seem to be

The other problem is that the measure seems to ignore many of the factors that we most closely associate with economic security, when we think of economic security in personal, micro terms. These missing elements are the savings, human and social capital, and other assets and resources that, along with government programs, provide people with the capacity to absorb various life risks.⁵

Unlike the security measure, the measure of economic equality — which is largely flat — seems intuitively to be reasonable. In a mature welfare state and dealing with broad averages, it would seem to be normal to have no major ups or downs in measures such as inequality that are defined relatively. A relative definition means gains on one front are often balanced by losses on another.⁶

In other words, the index seems to be a good guide generally, if perhaps exaggerating the movement of some of the sub-components. The following paragraphs outline what lies behind the movement in the index.

Personal consumption is up

Consumption flows have been increasing in total, with ups in some sub-components and downs in others:

- Personal consumption (adjusted for life expectancy, household economies of scale and some regrettable expenditures) has been rising for decades (with the exception of the early 1990s).
- Government consumption rose until the 1990s then fell.
- There has been little recent change in average working time and the balance of work and leisure — for people who are actually employed. (Annual working hours for the employed fell for nearly a century and then levelled off in recent decades. In addition, but not well-captured in the index, there has been a dramatic increase in leisure during most of the second half of 1900s for the population as a whole because of trends towards earlier retirement, but these levelled off in the 1990s.)
- Unpaid work has been reasonably flat until the 1990s when it started to grow quickly.

counter-intuitive. It would be unfortunate for policy making if a tightening up of eligibility criteria and reduction of work disincentives were automatically to drive the economic well-being measures in a major, negative fashion. It may well be that the losses in security could be quite small if it simply meant that more people had to rely on savings, on family or on other means of support to cover short unemployment spells — provided that unemployment insurance or welfare was still there to support more serious losses of income. On the other hand, if the result were significantly increased economic hardship, especially if many people fell on social assistance or slipped through the entire income security net in consequence, then the increase in insecurity would be real. Perhaps a future version of the index might find some way of finding a more satisfying balance.

⁵The index does include assets but, because it is a macro index, it includes them (properly) under a separate heading, which is linked to sustainability rather than to their contribution to personal security.

⁶Technically, it is possible for equality to increase for all groups if the overall shape of the income distribution simply becomes narrower. However, as will be described below, most analysts expect that this will be an unlikely outcome over the medium term. Indeed, overall market inequalities may increase in a globalizing economy. In these circumstances, it is possible to make gains in equality for some groups, but it is likely that other groups may become worse off.

We are building up, not depleting, our stock of assets. Accumulations of stocks of wealth (our legacy for the future) have been increasing, although less strongly in the 1980s and 1990s than in the 1970s — because of the combined effects of

- increases in physical capital and R&D, again less strongly in the 1990s (although there were major gains in reducing international debt in the late 1990s.);
- natural resource declines, mainly due to the fall in value of mineral resources; and
- gains in human capital in recent decades.

Equality, as expected, changes little on average (but averages hide the main stories)

Equality has changed little in recent decades as measured by the index:

- There were small increases in the 1990s in both the intensity of poverty and in overall inequality in the distribution of income.
- OECD studies show that improvements have been strongest for older people; there has been considerable stability in the income distribution of the working age population. Cyclical unemployment plays a greater role than in many other countries.

However, great care must be exercised in interpreting equality/equity measures. (This paper mainly uses “equality” to refer to outcomes, and “equitable” to refer to opportunities.) The questions of equality of what and equality for whom matter a great deal. This measure centres — quite reasonably given available data sources — on income equality at a point in time. Yet quite different readings might result if more current formulations of equality/equity were addressed, such as equitable opportunities to live up to ones potential over the course of life. As well, the situation would appear worse than shown if the measure were based on financial assets as well as income. Also, the use of national averages tends to hide the main stories — the huge increases in gender equality in recent years and the concentration of disadvantage in a small number of high-risk groups. Later sections explore these topics.

Economic insecurity has been growing, but has recently stabilized

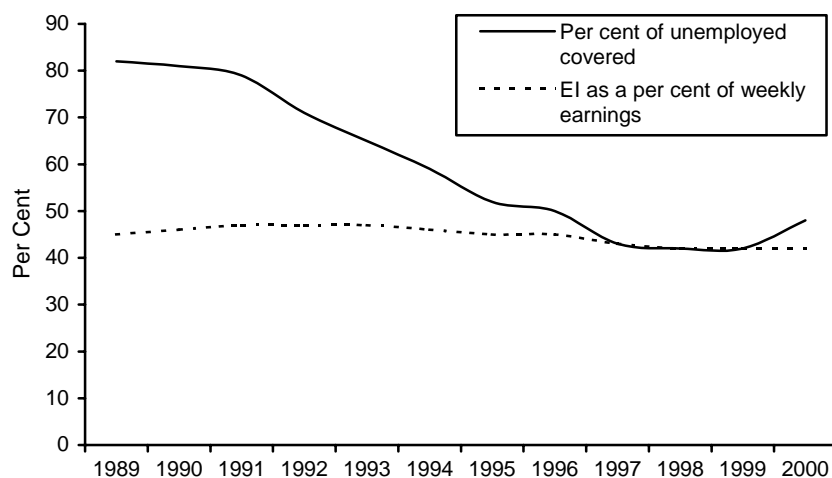
Economic security has been mainly on a downward course from the 1970s and this component has dragged the overall index down:

- Risks associated with being poor in old age have been falling while the risk of being poor as a single parent also fell in the 1990s after rising in the preceding decades. (Poverty in old age is a legitimate measure of insecurity among the working-age population, certainly contributing to a sense of economic well-being in the second half of people’s working lives. Note also that OECD studies show that the duration of time that working-age Canadians spend in poverty is relatively short, certainly well below that in the United States or the United Kingdom and comparable to that in Germany.)
- On the other hand, the financial risk associated with illness grew during the period.
- The main factor leading to greater economic insecurity was risk of unemployment, which grew sharply in the 1990s following gains in earlier decades. This reflects both unemployment rates and the reduced coverage of Employment Insurance benefits among those who are

unemployed. Footnote 4 however suggests a need for caution; other measures of EI coverage do not point to such large increases in employment insurance coverage in the 1990s and recent trends have been more stable.

More recent data show improvements in security. The Canadian Council for Social Development⁷ reports that measures of personal economic insecurity rose very slightly from 1998 to 1999 and then fell in 2000, mainly reflecting gains on the unemployment front. As the chart shows, unemployment insurance coverage fell sharply until 1997 and then levelled off (but note again that this ratio exaggerated the fall in coverage before 1997). Benefits levels have remained stable throughout. (Social assistance benefits expressed as a percentage of the low-income cut-off line also fell from the levels in the early 1990s until 1997 and again levelled off.)

Figure 2: Employment Insurance Coverage, Canada, 1989–2000



Source: Jackson, Tsoukalas, Buckland, and Schetagne (2002)

In other words, the main forces that worked in a negative direction in the 1990s came to an end by 1997 and were stable or improving in the next two years. The CCSD (Jackson, Tsoukalas, Buckland, & Schetagne, 2002) released the most recent version of their report at the time this paper was being finalized; it showed further improvements in economic well-being in 2001. As well, labour market signals from the first half of 2002 appear positive.

Provincial differences in economic well-being measures

There are large differences in economic well-being across the country, often as large as the differences between Canada and other developed countries. Figure 3 compares the provincial index (and its subcomponents) with the Canadian total.

⁷The CCSD has developed an index of personal security that begins only in 1998, but throws interesting light on economic insecurity. It covers health and physical safety, as well as economic factors. Once a longer time series develops, the CCSD data on personal income security (which provides a more micro-level perspective) will be a happy complement to the more macro-oriented Index of Economic Well-Being.

There is an east-west divide with the provinces from Ontario west having higher levels of economic well-being than those from Quebec east. Prince Edward Island (which scores well because of the security and equality components) and Saskatchewan (which is lower than the other western provinces) are the exceptions. The differences among provinces are mainly driven by patterns in consumption, which includes public expenditure as well as individual consumption. Newfoundland scores worse on most measures.

Provincial positions have not changed much over time

The relative position of the provinces has not changed much in recent decades. Since 1971 growth in economic well-being in the various provinces was similar to the Canadian average, with small gains or losses in the 1970s, large gains during the 1980s, and drops in the 1990s.

The main exception is Alberta where there was a very strong growth in the index in the 1970s — and Prince Edward Island and Saskatchewan, which have shown a flatter pattern across the whole period.

Canada ranks well internationally

Canada usually ranks high in international comparisons and, as the chart shows, the Index of Economic Well-Being is no exception. In terms of trends over time, Canadian performance has been noticeably stronger than in an average of seven OECD countries, with strong growth during the 1960s, 1970s and 1980s. Canada is seldom at the top of the list on any one sub-component of economic well-being, but is near the top on most.

In this international version⁸ of the index, the United States caught up to Canada in 1999 — following strong American growth in the 1990s, a period where trends in Canada flattened out. It is the consumption component in the United States that is responsible for their recent surge.

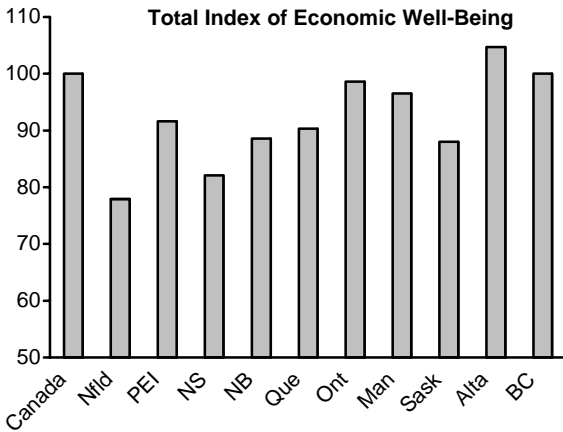
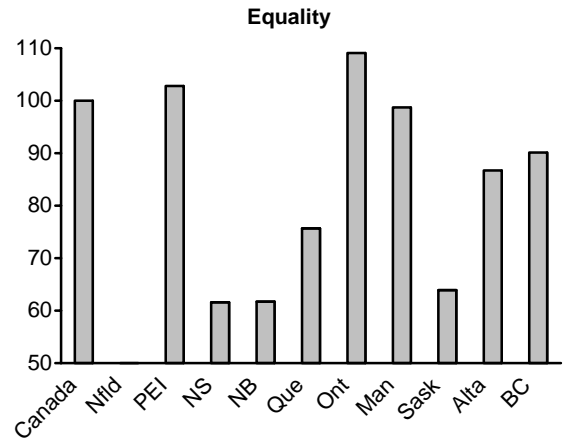
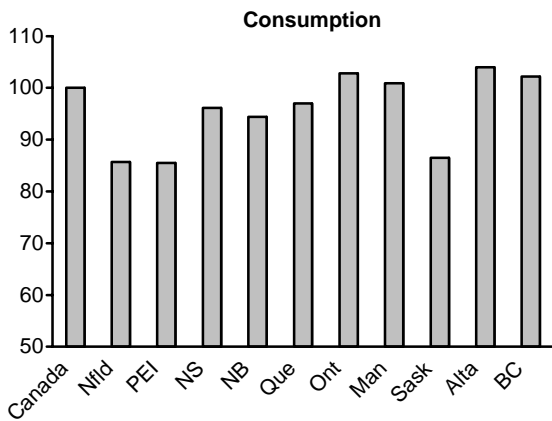
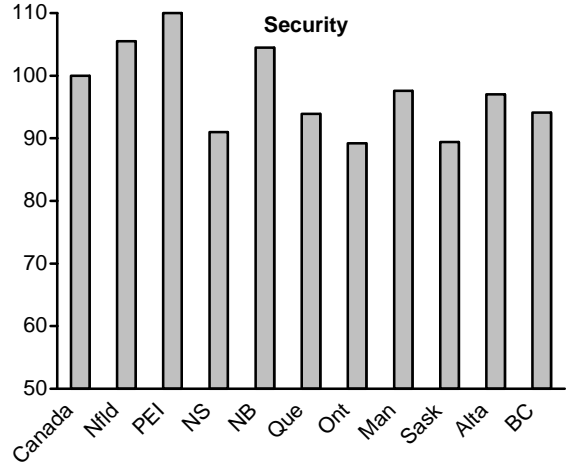
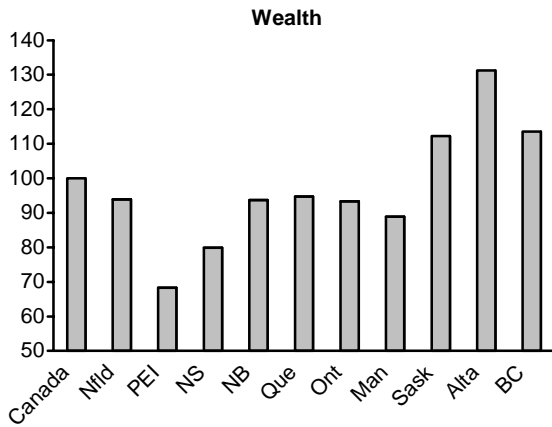
Income gap with the United States

Figure 4 compares trends where a country's progress is measured in comparison with its own past record. It is much more difficult to make direct comparisons across countries, requiring an ultimately subjective weighting of the various components of economic well-being. Under most weighting schemes, the United States scores worse in this group of seven high income countries in 1999 — with low scores in economic inequality and security pulling down its high scores on the consumption and wealth measures. Taking all the components into account, Canada scores higher than the United States but below Norway, Sweden, and Germany. However, with respect to personal consumption flows, where much recent attention has been focused, Canada stands well below the United States (at about 80 per cent of American consumption levels).

Figure 5 clearly illustrates the reason for concern. Canadian income levels have been falling with some improvement in the last several years. The personal disposable income trend shown in the chart is a much cruder measure of consumption than in the Index of Well-Being used to this point, but the underlying story is similar.

⁸This international version shows Canada in a more favourable position than either the Canadian version of the index discussed earlier in the chapter or still another version that compares only Canada and the United States. The versions reflect differences in data availability.

Figure 3: Total Index of Economic Well-Being and Its Four Components, Canada and the Provinces, 1999



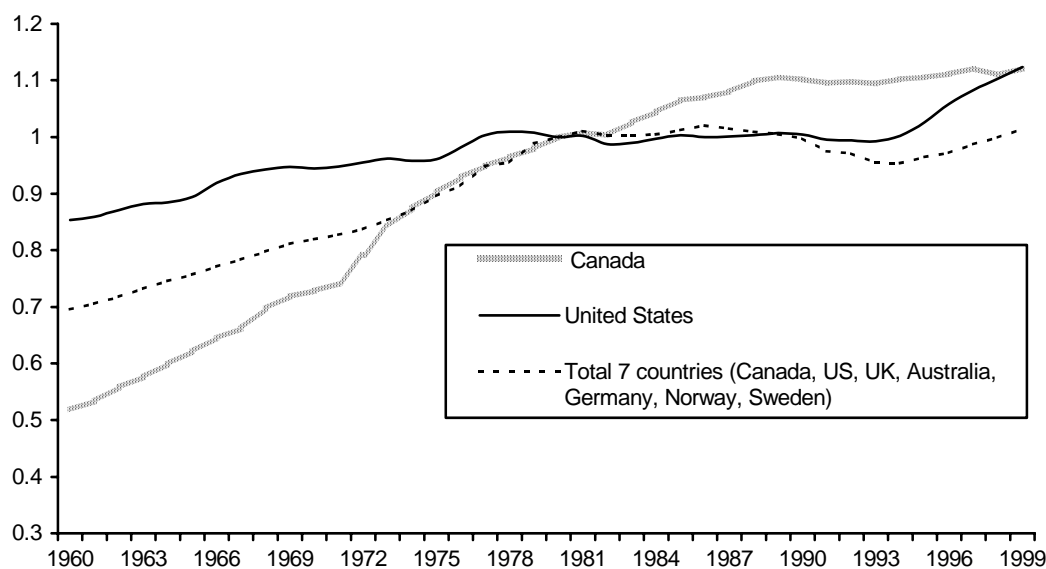
Source: Osberg and Sharpe.

Notes: Canada is set at 100 in all components and the provinces are compared with the Canadian total. The figure has been adjusted to take account of the fact that higher scores on some indicators such as insecurity are negative. For comparison of inequality, poverty intensity, and risk for health, the adjusted province/Canada ratio is calculated as $(2 - \text{Prov}/\text{Can} * 100)$.

The size of the economic pie is determined by both employment (amount of time worked⁹) and by productivity during the time worked. It is represented on the chart by GDP per capita, the basic number from which the various measures of personal consumption are calculated.

For most of the last two decades, both productivity and employment have been falling compared with the United States. In the last five years, however, employment has turned around and has begun growing relative to the United States, while productivity has continued to fall.

Figure 4: Index of International Well-Being



Source: Osberg and Sharpe.

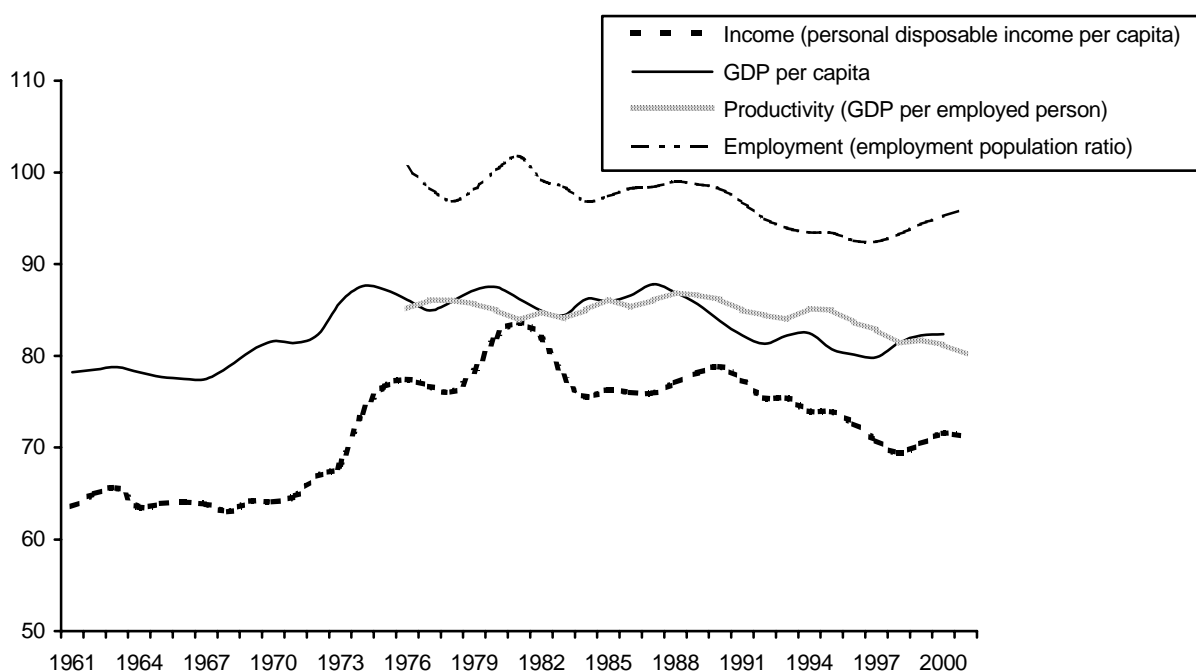
The income gap affects everyone. A study by Industry Canada (Létourneau & Lajoie, 2000) compared living standards by region for 1995–97, about the time that the gap was largest. In a list of the 50 states and 10 provinces ranked by living standards, Alberta headed the list of provinces — but in 18th spot only. Ontario was next in 37th spot, followed by British Columbia at 49th. The other seven provinces were among the lowest ten in this list of 60 provinces and states. Among the American states that were ahead of Alberta were California, Texas, New York, and most of the New England states. (The study also compares productivity directly, using the same technique, with similarly depressing results.)

It is important to note, however, that Canada has done well, and better than the Americans on other dimensions of economic well-being and that productivity performance has not suffered when compared with other countries. However, with North American economic integration, it is the American comparison that counts. It is also important to note that the chart contains recently revised and updated data (as of June 2002) that shows Canada in a somewhat more favourable

⁹What counts is the number of hours worked, not just the number of employees. Average annual hours worked were similar in the two countries in the 1970s. Since then, average hours have been quite steady in Canada, but growing in the United States, particularly in the 1990s — contributing to the gap. In the last couple of years, hours did increase a little in Canada, narrowing the hours gap a little. In 2000 employed Canadians averaged about 1800 hours of work over the year, some four per cent less than in the United States.

position than appeared to be the case even a year ago. The productivity gap remains a central issue, although perhaps not quite as vexing as it seemed in much of the literature of the past several years.

Figure 5: The Income Gap and Its Productivity and Employment Components (Canada as a percentage of U.S.)



Source: Data from Sharpe (2002).

Causes of the gap are not fully understood. There is no consensus in the literature on the reasons why Canada has fallen behind on the productivity side and uncertainty, especially about the American economy, has increased after September 11. New economy factors resulting from the information technology revolution and associated knowledge society and globalization trends are typically thought to be central factors, although it is hard to disentangle the effects of these components. According to Harris (2001), sensible views range from people who see reasonably modest effects of the new economy, to those who see information technology playing a strong longer-term role similar to the role of the railroad in the industrial revolution, to those who believe that the new technology will rapidly transform the entire economy from one based on goods and services to one based on knowledge. The evidence is mixed, but the middle of the explanations above appears to have greatest empirical support.

In other words, the income gap with the United States is caused by both employment and productivity gaps, with considerable recent improvement in reducing the employment gap. Current policy attention is therefore now on productivity side. The productivity gap does not appear to be the result of poor performance (compared with the Americans) in the labour market, skills, and income security policies under review in this paper. However, these policies are almost certain to be an important part of the solution to reducing that gap — as reflected in the current focus on skills that is discussed in the next chapter.

2.4 Broadening the concept: Wealth inequality, consumption poverty, and perceived well-being

The index of economic well-being leaves out a number of components that are important to the broader approach to economic well-being taken in this paper. As noted, assets and debts are also important in determining people's economic well-being — not only as it relates to the sustainability of the stock of those assets, but also in providing personal security against unexpected risks and for supporting life in retirement. Consumption is probably a better indicator of how material well-being is experienced than is income. There can be important differences between any of these measures and how people perceive their economic well-being.

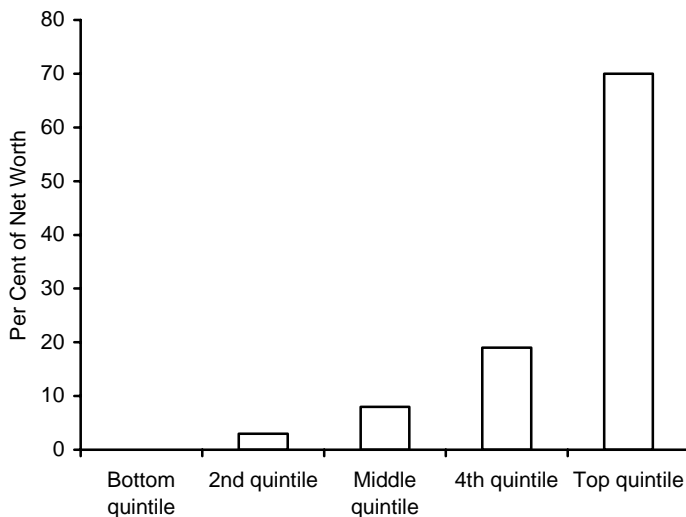
Wealth inequality is far greater than income inequality

Assets are typically not taken into account because they are difficult to measure well. Statistics Canada, for example, collected individual data on assets and debts in 1984 and only 15 years later in 1999. The results of the 1999 survey can be seen in the chart, which shows the great inequality in the distribution of net worth (assets less debts).

The top quintile — that is, the 20 per cent of families with most net worth — holds 70 per cent of net worth in Canada. (The top decile holds over 50 per cent of all net worth, well below the American level, where the top decile holds some two thirds of all net worth.)

The bottom quintile, on the other hand, has no net worth at all on average, with debts cancelling out whatever assets do exist. And it is unlikely that the situation of the very worse off — particularly the homeless — is captured in these numbers.

Figure 6: Distribution of Net Worth by Quintile



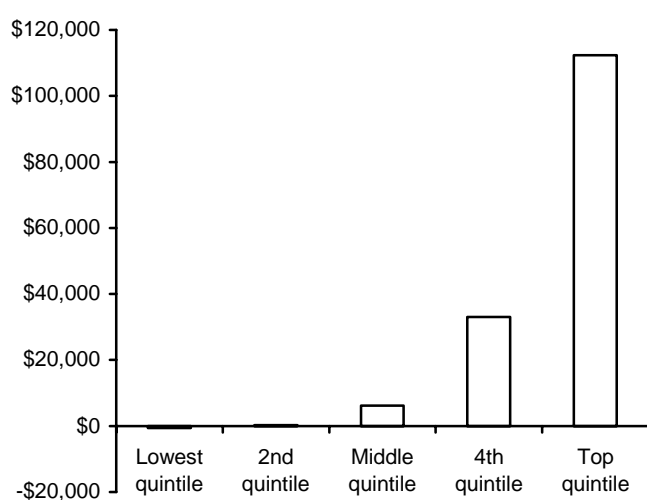
Source: Statistics Canada.

Note: Net worth is assets (housing, private pensions, other financial assets, etc.) less liabilities (mortgage, credit card debts, etc.).

On average, Canadian households have \$109,000 in net worth — mainly reflecting owning a house and having private pensions. People over 55 years of age have, as might be expected, far higher net worth than most of the rest of the population (with the pre-retirement 55–64 age group being highest of all). Unattached men and women and lone parents are in much the worse position. Net worth also varies greatly with income and education levels. People in Ontario and to the west are generally wealthier than those in Quebec and to the east.

The wealth gap widened considerably between 1984 and 1999 as can be seen in the chart. Only the top two quintiles showed appreciable gain.

Figure 7: Change in Net Worth From 1984 to 1999 (constant 1999 dollars)



Source: Statistics Canada

The wealthy got wealthier. The rest seemed to stay about the same. What actually happened was that the gains were entirely among people aged 55 and over, especially among those aged 65 and over. All younger age groups lost ground. The growth in RRSPs was the largest change in this period.¹⁰

People can draw on assets and capacities other than financial assets. The Appendix discusses human and social capital and other critical community resources. It is, however, not yet possible to measure national trends in these assets in a consistent way. The fourth and sixth chapters discuss possible ways of improving our understanding of the role of assets.

Consumption may be a better measure of poverty

While data on wealth is not regularly available, consumption data provides somewhat similar information. Household consumption will reflect not only current income but also the knowledge within the household of past and future assets and liabilities and expected future

¹⁰These comparisons over time are from an earlier Statistics Canada analysis that does not include employer-based pension plans.

income flows. Pendakur (2000) examines changes in absolute poverty using both income and consumption data:

- Consumption poverty rates are higher than income poverty rates. This means that income poverty measures may understate the actual level of economic deprivation.
- Nevertheless, about onehalf of individuals whose income is low have consumption that is not low. The two concepts are quite different.

More poverty among children. Absolute poverty as measured by consumption fell sharply during the 1970s and more gradually during the 1980s. This is not particularly interesting, since the basket of goods and service remains the same over the entire time period and, with overall economic growth, it is not surprising that more people could purchase this basket. Of greater interest is the fact that absolute poverty as measured by consumption actually rose from 1992 to 1997. And this growth in absolute poverty was greatest among children, wiping out the gains of the 1980s. However, as expected, consumption poverty declined for older people throughout the entire period.

Perceived economic well-being and security

The CCSD index referred to in the preceding section also includes recent data on how people perceived their personal economic security:¹¹

- Overall, confidence rose in 1999 and 2000, presumably reflecting the improved economy — but fell in 2001 despite the continued improvement of objective measures in that year.
- In both 1999 and 2000, the percentage of people who felt that there was a good chance of losing their jobs declined, and there was also an increase in confidence in people's ability to find a new job should they lose their existing job. However, all perceptual indicators were down in 2001. The seemingly obvious explanation — insecurity following September 11 — does not appear to be a large factor; the survey data showed that September 11 had only a modest effect on Canadians perceptions of financial security.
- Over 50 per cent of people were not confident that government income security would support them adequately while they looked for work (if they were to lose their jobs or run into severe financial difficulty) — and lack of confidence increased in 2001.

On the surface, this final finding might appear to be disturbing. The objective indicators suggest stability or improvement on most measures including (very recently) in most measures related to employment security. However, people's confidence in government policy to protect them is down.

There are several possible explanations for these results. One simply may be that, in fact, there has been less reliance on, and need for, government programs. The survey suggests that a large majority, especially among younger people, felt they could get support from family, friends, or community in case of job loss or severe financial difficulty. Insecurity in one area may well be compensated for by security in another.

¹¹Once again, note that this concept of personal economic security is broader than the economic security component of the Index of Economic Well-Being discussed earlier.

Another explanation — and one with great importance to policy — is that the lack of confidence in government may reflect broader value shifts about the roles of individual, market, and state. It is these shifts that have not yet been reflected in the public policies that are under review in this paper. The gradual shift to post-materialist values is further examined in the fifth chapter.

More generally, it is useful to put specific attitudinal questions in the broader context of overall perceptions of well-being. International surveys show that people in Scandinavian countries tend to have highest levels of satisfaction on average. However, Canada is not far behind with satisfaction levels that are among the highest in the world, well above the United States.

2.5 Looking beneath the surface: Winners and losers

Some things look better and others worse

In terms of the broad averages discussed to this point, there are some worrying findings, but generally things look satisfactory:

- Canada is doing well relative to other countries on most dimensions of economic well-being — the only realistic point of comparison for policy-making.
- Compared with our own past, the raw numbers suggest that, overall, economic well-being is improving over the longer-term. The period of the early 1990s were worrisome but conditions have now stabilized or are improving.

However, doing well “on average” can mean some groups are doing very well and others are not.

Winners and losers by gender and age

In recent decades, the combined effects of these trends have been quite different by age and, especially, gender. On average, women made large gains while men and younger people lost (at least in terms of labour market equality):

- Gender gaps in the labour market have been decreasing rapidly, not only in the share of employment and in education attainment, but also by virtually any equality measure — including earnings. Nor did these rapid advances have the large negative adjustment side effects that one might have been expected — such as large increases in time crunches and stress. Time crunches are discussed in Section 3.6 and in more detail in the Appendix.
- Young people with lower educational attainment did lose ground in terms of earnings and high unemployment. However, many younger people avoided the unemployment of the early 1990s by staying longer in school — an outcome that may have payoffs for the future.
- On the other hand, younger men — including those with both secondary and post-secondary education — seem to have lost ground in the labour market when compared with older cohorts of men at equivalent stages of their careers. This did not happen for women.¹²

¹²For many years there has been a pattern of young male workers doing less well in the labour market than older men — including both those with secondary and post-secondary education. The reason does not appear to be directly related to differences in skill levels or experience. Beaudry and Green (1997) have shown that the gap between older and younger cohorts persists over time; young men are not catching up with comparable older cohorts. The reasons appear to lie mainly on the supply-side of the market — factors such as the large growth in the numbers of people with post-secondary education (*continued*)

- Older men “lost” in terms of employment, but for many that loss did not seem painful, taking the form of increased leisure though earlier retirement with (for many, but not all) adequate and secure retirement incomes.
- Some market-based polarization occurred in the 1980s and 1990s. As noted, the wealthy got wealthier, with differences highly concentrated by age. As well, as is explored in more detail the Appendix, there was polarization in market income.

The data do not consistently point to any simple causal factor lying behind these changes.¹³ However, changing educational attainments appear to play a role. The average educational attainment of older workers and female workers, taken as a group, has been rising faster than the average educational attainment of young male workers. In the 1990s, the educational gap between youngest and oldest male workers had largely disappeared.

Concentration of disadvantage in high-risk groups

A large and growing amount of poverty (and insecurity and low living standards) is concentrated in readily identifiable groups. In 1997 some 54 per cent of persistently poor families (i.e. average income below low income cut-off lines during the six year period 1993–98) can be found in the five groups. This is up from 41 per cent in 1985. A recent analysis (Hatfield, 2000; Hatfield, 2001) identifies these high-risk groups:

- People with *work-limiting disabilities*,¹⁴ accounting for about 39 per cent of the total high-risk population. Within this group, some 28 per cent were persistently below low-income cut-offs in the 1990s.
- *Recent immigrants*, accounting for about 24 per cent of the high-risk population. Within this group, about 31 per cent were persistently below the LICO cut-offs. Among recent immigrants, members of visible minorities are three times more likely to be persistently poor. A recent study (Jackson & Smith, 2002) shows that disadvantage in this group is closely related to overall economic conditions. Regardless of the measure used, poverty fell sharply among recent immigrant families during the period of economic recovery from 1995 to 1998 — although the gap between recent immigrants and the rest of the population remains large.

and growing participation of women. If this is so, then it is possible the problem may solve itself, at least to some extent, when the baby boom generation starts retiring in large numbers in 5 to 10 years' time — and labour shortages are likely. However, an open question remains about what will happen to the young men who entered the labour force in the 1990s or will enter in the next five or so years. Will the changes in the balance between the demand and supply of labour allow them to catch up? There is no clear answer that emerges from the research. However, to the extent that there is a continuing problem, then much of the answer must lie in the familiar remedy of lifelong learning, particularly addressed to mid-career learning.

¹³Patterns in Canada appear to be quite different from those in the United States. Unlike the U.S., increased premiums because of education or experience do not appear to have played a role over the 1980s and 1990s. As Heisz et al. (2001) point out, new technology played, at best, a partial role; computer skills are highest among the young, whose position deteriorated. Nor can they explain the different patterns among men and women.

¹⁴Crawford (1998) used the 1993 and 1994 data to examine the work situation of people who report work-limiting disabilities. About 15 per cent of the working-age population reported having a disability in any year. This is lower than reported in some other surveys where the number can rise to 20 per cent. About half of the disabled population reported the disability in both years and the other half only in one year — suggesting that, as with many socio-economic states, there is a considerable flow into and out of disability status. Compared with the non-disabled population, only about half as many disabled people work, and earnings are lower among those who do work. CPP/QPP disability benefits and social assistance are larger on average than earnings, with the likelihood of high work disincentives in these programs.

- *Unattached people aged 45 to 59* represent about 23 per cent of the high-risk population. This is the group where the risk of persistent low income is the greatest — at 34 per cent. This is the big surprise to emerge from the analysis, as this has not been identified as a specific high-risk group in the past. Preliminary HRDC analysis suggests that a mix of family, skills, and disability factors is responsible.¹⁵
- *Lone parents* with at least one child under the age of 18 account for 15 per cent of the high-risk population and about 30 per cent this group faced persistent low incomes. Among this group, the risks of being persistently poor are much higher for women who had their first child before the age of 19. Note that the OECD¹⁶ calculates that the situation for lone parents is better in Canada than it is in the United States, the United Kingdom, and Germany — other countries for which data are available.
- *Aboriginal people* are a smaller group in the data, but the survey covers only those living off reserve. Among these groups, the risk of low income, at 16 per cent, was somewhat less than in other high-risk groups. Within the group, the risk of low-income was much higher for status Indians — more than double that of people who are not a Registered Indian under the Indian Act. Indians living on reserves have lower incomes, on average, than those living off.

These groups in total represent about a quarter of the adult population, excluding double counting. In addition, about 30 per cent of all children in Canada are in these high-risk families; child poverty is concentrated here.

Care is needed¹⁷ in adding up these groups as people may belong to more than one group. When that happens, risks increase. For example, people in other high-risk groups, are typically twice as likely to have persistent low income if they also have work-related disabilities.

While the persistence of low incomes was the criteria used to identify the groups, people in these groups also face a range of other problems. Compared with other working-age Canadians, people in the high-risk groups are

- more than twice as likely to not have full-time, year-round jobs;
- much more likely to be long-term social assistance recipients; and
- likely to experience levels of maternal depression and family dysfunction that are typically twice as large. Other data sources point out that the huge majority of vulnerable people who require government interventions are people that face multiple symptoms, typically a combination of health (including depression) and social symptoms.

¹⁵A first examination suggests a combination of factors. First, a higher percentage of people in this category have work-related disabilities and these are of longer duration — although this is not the only factor at play. Second, being unattached is itself a source of risk (only one source of family income, no household economies of scale) and older unattached people tend to stay unattached longer than the younger unattached. Third, women are slightly over-represented in this group, and most are divorced or separated mothers — suggesting that time out of the labour force to raise children may have left them less prepared for subsequent entry to the labour market.

¹⁶OECD figures show that Canadian single parents had disposable income that was only 57 per cent of the overall average in the mid-1990s. A couple with children had income that was almost at the national average (94 per cent). The position of single parents in Canada is a little better than corresponding American figure (49 per cent) and a little worse than an average of 14 OECD countries (62 per cent). The Canadian position had improved, however, compared with the preceding decade, more so than in the United States, while the OECD average remained unchanged.

¹⁷Care is also needed for methodological reasons, since the data are analyzed in terms of the characteristics of the main earner in a family only.

Most people in high-risk groups are not disadvantaged

Being in a high-risk group does not mean that the risk will be realized. Indeed, most people in high-risk groups are *not* poor. Those people in these groups that did have steady employment, had about the same (very low) risk of persistent low incomes, as did the population as a whole. And note that being jobless, or persistently poor, is not a static state; there is much income mobility within these groups.

Outside of these five groups, disadvantage is scattered throughout the population

About half of measured persistent poverty is found among people in the five groups. The other half is spread among people with similar socio-economic characteristics, including educational attainment and occupation. No other groups that can be identified in the data came close to these five in terms of the risks they face.

- Full-time secondary students living alone did face comparable problems, but there are few of them and their situation is, we can assume, largely temporary.
- Persistent poverty is not high among visible minorities apart from the recent immigrants and, again, this is not a large group.
- Youth is not a problematic characteristic per se, but youth, in combination with membership in a high-risk group, significantly increases the incidence of persistent poverty. Similarly, risks increased to the extent that high-risk people were never married and had many children.
- Outside these groups, much risk is apparently random and hard to trace — seemingly the result of bad luck, the result of multiple misfortunes. While small in per cent terms, policy must not overlook these cases; neither should mainstream policy be entirely designed with these cases in mind — as often seems the case at present.¹⁸

In total, outside of the five groups, only four per cent of the population had persistent low incomes.

Is there really a vicious cycle of poverty and disadvantage among high-risk groups — perpetuated in poor neighbourhoods and across generations?

A key worry in social policy is that membership in some high-risk groups can be self-perpetuating, with low-incomes, economic insecurity, and a host of related social, health, and economic problems being passed from generation to generation. This could happen for many reasons related to dysfunctional families and living in poor neighbourhoods that foster a culture of disadvantage. However, this may be a worry that has been unnecessarily borrowed from the United States. The Canadian data do not show the same patterns of persistent disadvantage.

Looking at neighbourhoods. There have been growing changes of employment, unemployment, and income inequality among urban neighbourhoods. Employment has increasingly concentrated in higher income communities and unemployment in lower income neighbourhoods.

¹⁸Universal social policies built around social insurance principles work best when a relatively small number of people are at-risk and when those risks are randomly distributed across the population — not concentrated in a small number of high-risk groups.

Myles et al. (2000) point out that real average earnings fell, sometimes dramatically, in low-income neighbourhoods in virtually all of the eight largest Canadian cities and rose moderately in higher income neighbourhoods. At the national level, social transfers were able to stabilize income inequality in the face of rising earnings inequality. However transfers have only a modest impact on changes in neighbourhood inequality.

Rising neighbourhood inequality can be the result of rising family income inequality in the city as a whole or because families were increasingly sorting themselves into “like” neighbourhoods: the rich living in one neighbourhood and the poor in another. This latter form of spatial segregation is of interest to policy since it means that it may not be possible to reduce neighbourhood inequality simply by improvements in income distribution. Urban segregation has played a role in Quebec City, Winnipeg, Calgary, and Edmonton. In Vancouver, Montreal, Toronto, and Ottawa-Hull, on the other hand, the main driver has been a city-wide increase in income inequality.

On balance, it would appear that, unlike some American urban ghettos, living in poor neighbourhoods in Canada is more the outcome than the cause of low levels of economic well-being. A recent research paper from Statistics Canada (Oreopoulos, 2002) explores the difficulties of identifying neighbourhood effects and indicates that the balance of evidence would seem to suggest that policies aimed at improving outcomes among children from low-income backgrounds are more likely to succeed if they address cases of household distress and family circumstance rather than attempt to improve residential environment conditions.¹⁹

Intergenerational mobility. The evidence presented by Corak (2001) suggests that, counter to many perceptions, there does not appear to be a major problem overall of transmitting low incomes from generation to generation. There is relatively little correlation between parent’s income and children’s subsequent income at the low end of the income scale. On the other hand, the richest do tend to pass on their high income status to their children. In between is a mixture, but overall Canada is among the top group of countries with the best records for intergenerational income mobility — much better than in the United States or the United Kingdom. The reasons for success are not entirely clear from the evidence, but seem to be related to wide access to post-secondary education.²⁰ (The correlation between the skills of parents and their adult children is not strong, again suggesting much educational mobility.)

¹⁹The study in question is a particularly interesting examination of subsidized housing in Toronto where the data do allow a close study of neighbourhood effects. The key finding from the analysis is that “average education attainment, annual earnings, income, and social assistance participation among youth from low-income families do not differ by the degree of low-income concentration in the neighbourhood that the youth grew up in. I find no advantages to low-income family kids living in middle-income neighbourhoods in the suburbs, and no disadvantages to low-income kids living in the lowest-income neighbourhoods in downtown Toronto. These results hold whether contrasting housing projects by low-income neighbourhood concentration, whether in townhouses or high-rise apartments, and by length of residency or age of entry.” Neighbourhoods do matter on some important social dimensions however — on family composition and on outcomes related to crime.

²⁰People do transmit socio-economic status across generations on average. There are many reasons for this including income, wealth, educational status, genetics, family environment, values, and various cultural factors. These work together in a subtle fashion and there are many gaps in our empirical understanding of causality. (See Bowles & Gintis, 2002). However, the international literature, mainly based on educational and occupational studies, also shows that there is much intergenerational mobility as well. The Corak findings for Canada confirm that there is much mobility in this country in income status as well — and, particularly important, that it differs depending on level of income, with mobility among those with low incomes being particularly strong. Caution is needed in interpreting these data, however. The Corak analysis is based on the best data available, and is a breakthrough in the international literature on the subject, but is by no means the final word. For example, it currently deals with income mobility only for the periods when the younger generation being compared are in their teens and it deals with father’s income — thereby excluding most single parent families.

Income alone does not appear to be a major factor in explaining parenting skills or problems among children. The evidence would provide only weak support for the notion that addressing child poverty (that is, making marginal changes in the income situation of the parents of those children) would, taken in isolation, have any great influence on the longer-term success of those children in the labour market.²¹

Recent analysis based on data from Canada's *National Longitudinal Survey of Children and Youth* (Willms, 2002) provides a major breakthrough in understanding of vulnerability among children. It goes well beyond an assessment of risks associated with low incomes and other socio-economic factors and assesses actual vulnerabilities in terms of poor vocabulary and mathematical abilities, low motor and social development, and various behavioural problems. While there are many qualifications, the fundamental conclusion is strikingly clear. Most vulnerable children do not live in poor families. "The benefits of good parenting skills, a cohesive family unit and parents with good mental health far outweigh the negative effects associated with poverty. Moreover, these factors do not have a strong relationship with family income." In other words, marginal increases to income support programs directed to reducing child poverty will, by themselves, have little effect on reducing real vulnerability among children or, seemingly, on the social inclusion of those children throughout the later course of their lives.

These findings of small neighbourhood effects, low intergeneration transmission of poverty and indeed the relative small weight of low incomes in determining vulnerability among children seem to be counterintuitive and certainly run counter to much recent policy thinking. The problem may be that policy advisors have paid too much attention to American as opposed to Canadian data.²² As well, policy-makers, frustrated by the lack of empirical evidence to support decision making in this area, may have been too eager to bring on board some potentially exciting new Canadian research in the area of human development before it was sufficiently developed for use in policy applications.²³

2.6 The challenge for policy: A glass half full or half empty?

Paradigm shifts and discontinuities

There is asymmetry between past trends and views on future challenges. For many of the determinants of well-being, trends in recent decades have been stable or positive. The numbers, taken in isolation, indicate that Canada is doing quite well compared with other countries and do not suggest any need for large changes in policy directions. Yet much of the policy literature

²¹This does not mean that policies directed to removing child poverty are wrong. What it does mean is that they should be justified in terms of the direct, immediate benefits of increasing the income available to those poor families where children are present — whether through targeted programming or the provision of universal benefits. Based on present evidence, they cannot be justified in terms of the likelihood that increasing the income of these parents would have any great effect on the subsequent lives of their children when they become adults.

²²This over-borrowing from American data also happens in the area of health, where the urban link in the United States between income inequality and health does not occur in Canada.

²³The research in question, much of it associated with the Canadian Institute for Advanced Research, is without doubt exciting — combining findings from sociology, population health, and biology. It uses information about the biology of human development together with information on how socio-economic gradients are linked to developmental risk at various age levels. The policy implications would seem to strongly support more intervention at the level of early childhood. However, today's evidence is only suggestive; direct readings from longitudinal files that follow people over much longer periods of life are needed and these files are only now beginning to build up. At the end of the day, the research is still mainly directed to providing an understanding of causality at a point in time, while the fundamental data of interest to policy is about trends — whether things are getting better or worse over time.

tends to put a negative spin on these numbers, or anticipates major challenges in the future and, often, the need for quite different policy directions.

There are several reasons for this seeming paradox (apart from the fact that pessimism is self-serving for the policy community²⁴). Often these views presuppose paradigm shifts — large changes in socio-economic circumstances such that social policy that worked in the past will not work as well in the future. The transforming changes that are typically seen as being associated with some combination of globalization, the new economy, the continuing role of public debt, North American integration, changing federal and provincial roles, and changing demographic and family structures. Recent trends that have been negative are often interpreted as early manifestations of the new paradigm.

Other analysis addresses such issues not as paradigm shifts but as discontinuities. For example, the 1990s may have been an atypical period of cyclical change and adjustment. During this period, economic decline and subsequent recovery coincided with major fiscal pressures and programming cuts here and unprecedented economic expansion in the United States. Whether there is a paradigm shift or a discontinuity, recent trends may provide limited guidance about what is likely to happen in the future.

Still other analysis looks at the same set of data and finds a considerable level of continuity in underlying trends. In this reading, the negative trends of the 1990s should be seen mainly as normal cyclical and irregular movements.²⁵

The extent of market responsiveness: The second uncertainty faced by policy-makers

To complicate matters, there are two orders of uncertainty that must be taken into account. First is the uncertainty about the direction and the pace of changes in the socio-economic variables discussed above. Second are uncertainties about the extent to which markets and families are likely to adapt to those pressures without the need for large changes in policy directions.

Large socio-economic changes need not be necessarily associated with large policy changes. If markets and families adapt well to changes, there may be little need to consider new policy directions. Yet there is much uncertainty about the extent to which markets, schools, families, etc. will in fact adjust in the absence of policy change — often as great an uncertainty as there is about the extent of the socio-economic pressure. Once again, the headline is about the lack of adjustment and the need for new policy responses. However, the reality is that people generally do adapt; Canadian families and markets usually do work.

Two hypotheses about the policy challenge

1. We are on the right track. The analysis of this chapter can therefore support two quite different policy conclusions. On a surface reading, most of the data above suggests an optimistic view of progress and provides little reason to deviate from a strategy of incremental policy. As noted, longer-term trends are positive or stable and the data for the most recent several years are even more positive. No country has a record that is significantly better than Canada's. Without question, there is room to learn, but we appear to be on the right track.

²⁴And happily so, since it offsets the optimism that can be self-serving among those who administer the policies.

²⁵Social history suggests (e.g. Club of Rome) that change is often more evolutionary than first appears and that the search for underlying continuities may be useful in setting future policy directions. It is change, not continuity, that captures the headlines, but the reality is that most new policy research seems to uncover greater continuity than was formerly suspected.

The fact that problems are concentrating in a few groups and urban spaces is an important insight — but one that may well be quite compatible with existing approaches. Greater concentration may simply make it easier to identify and solve problems. Complacency is not called for, but change can be incremental — particularly by focusing on the outstanding problems of the five high-risk groups. Indeed, that is already happening to a considerable extent, as reflected in the higher priorities given to children (and single parents), to work-related disabilities and to Aboriginal people. We have not yet seen the positive outcomes in all areas, but we seem to be addressing the right questions.

As well, it is important to recognize that important social progress has been made in recent decades on fronts that are at the borders of this paper:

- Enormous gains have been made among older people in virtually all dimensions of economic well-being. This also includes an explosion in leisure among older people. Indeed, the result is almost certainly an over-concentration of leisure in old age that is likely to require corrective policy action in the future. Since Canada used to perform badly in providing economic security for older people, the concentration of policy here made sense and the fact that there was lesser progress among working-age people should not be seen as problem.
- On matters of equality, recent decades have seen astonishingly large gains by women on most fronts — education, earnings, and employment. Since women were greatly disadvantaged in these areas, it is not surprising or necessarily troubling that other groups, such as younger less-well educated men, or some of the high-risk groups, have not fared as well.
- The recent emphasis on children is still another example of Canada concentrating its policy energy on the areas where it is most needed. The payoffs are not yet visible, but the needed policy responses have begun.

This view does not deny the harm to economic well-being that is associated with the relative high unemployment levels in Canada and its high cyclical component — especially when the cyclical downturn of the 1990s, and the early period of recovery, corresponded with fiscal restraints. However, few critics have seen the policies within the scope of this paper as the source of the downturn.

Similarly, the optimistic view does not deny the importance of the worrying productivity gap with the United States, but sees the policies within the scope of the paper as part of the solution to reducing that gap and not part of the problem.²⁶ It is important to keep in mind that, in many dimensions of economic well-being, Canadian performance has been significantly higher than in the United States.

Equality and security — and economic well-being generally — are defined relatively. It is not easy to make progress on all fronts simultaneously as, often, relative gains by some mean relative losses by others. In this optimistic reading, however, Canada has tackled the right problems in the past and has prepared the way for future success in tackling new problems by putting the fiscal house in order. With a continued priority on economic growth and debt reduction, we can anticipate successful incremental development of our, fundamentally strong, human capital and income security systems.

²⁶Most explanations lie in the area of innovation, technology transfer, and machinery and equipment investment — and not on policies within the scope of this paper.

2. The determinants of our current success are crumbling; the policy foundations need rebuilding. In an alternative reading, the success story above is not denied. However, that success is seen as a reflection of Canada's huge investments in education in the 1960s and 1970s, the earlier building of the foundations of gender equality, the creation of sophisticated systems of retirement income and the creation of generous (possibly over-generous) unemployment insurance systems. Canada made particularly good use of the positive fiscal environment of earlier decades to build a strong social infrastructure in support of economic well-being. It was sufficiently generous that gains could continue in the harsher fiscal climate that followed — by increased efficiency through means such as greater targeting on those most in need. However, in this reading, we have now used up most of that public social investment.

Educational attainment statistics illustrate the enduring effects of this one-time explosion of investment in post-secondary education in the 1960s and 1970s. The percentage of the adult population with post-secondary education rose rapidly in the 1970s and 1980s as the graduates from the newly expanded system moved into their working years. In more recent years, the attainment trends have flattened out and, in consequence, the educational profile of younger and older workers has become more similar, as was described earlier.

There have been no comparable social investments in the last couple of decades and, indeed, some erosion of public spending in the 1990s. It therefore may seem reasonable to anticipate a parallel (relative) erosion of economic well-being over the future — moderated to some extent by the very recent improvements in child benefits (which are recent and have not eliminated high levels of child poverty). The slowness of the recovery of real wages, the growth in income inequality, the persistence of the disadvantages faced by cohorts of younger male workers, and the persistence of low incomes in the recovery of the late 1990s can be seen as manifestations of problems that could get worse in the future.

Further, some past policies never did work all that well and need to be rethought. The problems associated with work incentives and poverty/welfare traps were never resolved and newer, more targeted, income security policies may make solutions even harder to find. As well, groups that were least well served by past policies may grow in importance in the future — such as people with disabilities, Aboriginal people, and the homeless. There is a suspicion that the history of policies directed to these groups has been characterized more by a re-labelling of programs than by substantive success. And the situation may be worse than indicated by the income numbers, as the more troubling data on the distribution of consumption and assets suggests.

The negative interpretation also reflects a shift in points of comparison. We may do well compared with most countries and even with our own past. However, with North American integration, the main point of comparison is with the Americans, and their economy has been particularly strong — outstripping ours in terms of productivity and GDP growth and, in consequence, in the central longer-term driver of economic well-being — GDP per capita. Even if the literature were not definitive on the reasons for this exceptional period of American economic growth, it would still be a problem for future economic well-being in Canada if the size of our economic pie keeps shrinking when compared with that in the United States. It is prudent to assume that major changes to policies within the scope of this paper — particularly investments in skills — must be central part of the solution for reducing the gap, as is outlined in Canada's Innovation Strategy.

The pessimistic reading reflects an underlying view that many economic well-being policies have not kept up with the fundamental changes that have been happening in families, neighbourhoods, workplaces, communities, and the macro economy — including North American economic integration. The world of the future may be quite unlike that of the past because of globalization, value shifts, governance challenges, smaller two-earner families, low fertility, family instability, technological changes, the labour market repercussions of the knowledge economy, or the fallout from September 11.

How do we move forward?

The purpose of this paper is to outline a framework to help in preparing for a medium-term economic well-being policy agenda. Yet, at least on the surface, the economic well-being data seem to be compatible with radically different readings of what should drive that agenda.

The solution that will be adopted to deal with this uncertainty is, first, to identify the pressures that, based on present evidence, are most likely to shape the medium-term policy agenda. That is the subject of the next chapter. The fourth chapter then identifies a number of common new elements that seem likely, by any criteria, to form part of the package of future policy responses to those pressures. Only then does the fifth chapter deal with uncertainty and different views of the future. Three policy scenarios are formulated that illustrate different ways in which the policy elements might be combined to form overall strategies. Uncertainty can be managed in policy research and development work if that work is designed in a sufficiently flexible way that it could support all three scenarios.

Chapter 3

The Drivers of Tomorrow's Policy Agenda

3.1 Overview

There is nothing in the evidence of Chapter 2 on social cohesion and economic well-being that points to any need for a sudden radical transformation of policy — for starting afresh. Policy, however, will continue to evolve, possibly with major changes in some areas if one takes the glass-half-empty view described in the preceding chapter.

Section 3.2 shows that today's policy emphasis on skills, learning, and human development is likely to continue as a central element of the policy agenda and should provide a good foundation for further evolution of policy. It will continue to provide a nice balance between competitiveness and inclusion and is a safe response to an uncertain future.

It is also clear that there will be important new drivers of policy in the 5 to 10 year time-frame that is being investigated here. Section 3.3, discusses the criteria which will be used to identify the key new pressures from a longer list of dark horses and honourable mentions.

Two new drivers of change are identified as being central to future economic well-being by any criteria. First, section 3.4 discusses the changing ratio of consumers to producers. Changes in this ratio will almost certainly dominate the policy agenda in five years' time as the baby boom generation begins to move into retirement in earnest.

Second, section 3.5 examines new forces that are likely to affect the retirement decision in about the same time frame and, in direct consequence, to lead to a reallocation of the huge build-up of leisure that is occurring at later stages of life.

The last section is a short appendix to the chapter that reviews a number of policy issues that are commonly discussed today, but that are judged here as not being sufficiently certain to be considered as big drivers of medium-term policy. These are the dark horses and honourable mention cited above.

The chapter draws heavily on a fuller, and more structured, examination of the future socio-economic trends that is found in an appendix to the paper. The Appendix is addressed to readers who may not be familiar with recent (strong) literature on policy-related economic trends. For those interested, the Appendix could be most logically read at this point, before going on the rest of this chapter.

3.2 Building on existing strength: The relentless pursuit of lifelong learning

The safest policy approach to an uncertain future is, first, to have a resilient, flexible set of policy instruments and, second, to use those policies to clearly focus on fundamental, enduring social issues — the health, safety, skills, and economic well-being of individuals. The existing Canadian policy architecture can be improved, as is discussed in the next chapter, but is still strong compared with other countries. And, as is discussed in this chapter, the recent substantive focus of policy on human capital, children, and skills provides a sensible basis for tomorrow's policy

agenda. It is the right response to the combined pressures of global competitiveness and social cohesion.

Learning and human development as the substantive medium-term policy response

A concern for skills and human resource development dominates current policy agendas in Canada, as Canada's Innovation Strategy illustrates.²⁷ Major recent initiatives for children have also helped put human resources development issues at the centre of the policy stage. This section will argue that human development issues are almost certain to remain near the centre of that stage over the medium term.

Lifelong learning for all is the best concept. When thinking in terms of a medium-term policy agenda, it is useful to capture themes related to skills, human capital, education, and human resources development under the heading of learning, that is, the instrument that is used to achieve high levels of skills and human development. To use OECD terminology, the agenda is about “lifelong learning for all.” The Appendix to this paper explains why, in this time frame, filling gaps in the learning system is a more useful way of expressing this goal than attempting to address future skills gaps directly. In essence, it is that we do not have the tools to measure the medium- or longer-term dimensions of skills or human capital.²⁸ Box 15 on two alternative approaches for the medium-term in the Appendix compares medium-term learning priorities with medium-term skills priorities; the former tell a stronger story.

Mid-career learning and early childhood development would be key medium-term policy challenges that would emerge from a learning gaps agenda — as would a concern about raising generic skill levels, overall and especially for those with lower skill levels. Another priority would be the improvement of the mechanisms by which markets can send clear signals about changing skill requirements.

Why lifelong learning should remain a top priority

Lifelong learning for all is likely to continue as the central policy focus for the medium-term since it

- represents a safe response against an uncertain future;
- provides a nice balance between economic and social goals, between economic competitiveness and social inclusion;
- responds to moving targets; and
- holds promise of dramatic effectiveness gains over the medium term.

²⁷The human development emphasis is by no means limited to government. It arises constantly from think-tanks, the business community, social action groups, and academia. Courchene (2001), for example, produces a strong case for a unique policy focus on human capital in the globalizing new economy.

²⁸The analysis in the Appendix attempts to find evidence about the specific occupational skills that people would need in above 5 to 10 years' time. However, the analysis stumbled on the difficulty that there are no reliable projections of specific skills gaps that far in the future. Indeed, even current data on how particular skills are acquired and used is quite weak. Nor is there any practical way of directly measuring the specific medium-term outcome of investments in skills — that is, in any specific increases in human capital that can be used in the economy. There appears to be no evidence of any specific occupational skills gaps emerging over the medium term that have not already been anticipated. Canada's performance compared with its own past and with other countries in producing people with the needed skills seems generally satisfactory. There is a shortfall, but it is in overall level of generic skills — as explored in the Appendix.

A safe response against an uncertain future. Learning is a response to an uncertain future, appealing to both the policy optimists and pessimists of the last chapter. It is consistent with views along the whole political spectrum from right to left. The Appendix analyzes possible future changes in the demand and supply of labour and finds that, regardless of assumptions made about the future demand for labour, learning is an appropriate policy response. As Box 1 shows, investing in high-level generic skills²⁹ seems to make sense if there are not enough jobs — or if jobs are polarized or if there are labour shortages. It seems to be the remedy for all ailments.

A nice balance between economic competitiveness and social inclusion. One of the key challenges identified in Chapter 2 is the gap with the United States in levels of material well-being. A key factor is the productivity gap and, as the documents that support Canada's Innovation Strategy demonstrate, skills and learning are key means of closing that gap.

The analysis in the Appendix also finds that another key challenge is a growing concern about inequality and insecurity that persists over longer periods of time and over the course of life, including a concentration of persistent disadvantage in a limited number of at-risk groups. Once again, a “lifelong learning for all” agenda provides a context for finding solutions — as will be explored in more detail in the next chapter.

Responds to moving targets. Success in learning and skills can only be judged relative to other countries. And other countries are investing heavily in learning and skills in order to strengthen their competitive position. To maintain the status quo is to fall behind — at least in terms of competitiveness.

Holds the promise of dramatic effectiveness gains over the medium term. Learning, of course, is no magic solution. These benefits will only be realized if learning investments are actually translated into higher skills levels, if the skills are used in the labour market (and in such a way that productivity increases), and if the skills are appropriately rewarded. Since much of the data that would be needed to measure this is missing, there is some cause for scepticism — for being wary of cure-all solutions.

As well, there has been a long history of unsuccessful policies directed towards adult training and learning. Overall, they have had little success either at the higher-level skills end, or in the labour market integration of people at the lower end of the skills spectrum.

Nevertheless, while caution is certainly needed, there are powerful reasons to anticipate large future gains in the effectiveness of lifelong learning.

The first factor is related to expectations. There is a sense in some of the literature that much of today's investments in learning do not get a high payoff. This is supported, for example, by data that suggest we are big spenders on education and get only modest results when measured by comparative achievement tests. This problem is, however, now being actively addressed by educational authorities throughout Canada. At a more macro level, Riddell (2001) points out that the labour market returns to investments in schooling are higher than was formerly thought and there is no evidence of any diminishing returns to investments in schooling. See the Appendix for further discussion of these points.

²⁹The generic skills in question are referred to as “essential” skills in the *Stepping Up* report of the Advisory Council on Science and Technology (2000) to distinguish them from technical skills.

Box 1: Different Views About Labour Demand Result in Quite Similar Policy Prescriptions

If there is continuing high demand for labour more people with higher general skills will be needed.

Those who stress continuity in economic trends anticipate, of course, a continuation of the huge growth in demand for labour in total that has marked the last 40 years — and for workers at all skill levels, particularly for the more highly skilled. Knowledge workers of various sorts will become more important.

One concern relates to generation conflict. Younger male workers have been having a harder time in the labour market than did older cohorts. They may become scarred by this experience and will be unable to fully benefit from increased labour demand when that finally starts to arrive in five or so years' time, as the baby boomers begin to retire.

Knowledge workers require higher levels of generic skills (including skills associated with the use of new technology). These are the skills associated with higher educational attainments on average and better systems for upgrading skills over the course of life.

In an aging society, lower skilled work will not dry up. There is likely to be an expanded need for more lower-skilled workers in areas such as home care and the like. However, secondary completion is likely to become the minimal qualification for work and post-secondary the norm. Existing attainment levels are well below this.

And, as to the possibility of scarred cohort of younger men, it is hard to think of policy responses that would be better than a major increase in mid-career learning.

If there is lower demand for labour, or a polarized workforce, or intergenerational unfairness more people with higher general skills is still the prescription.

Some envision a future where work may wither away as the dominant driver of society as a consequence of technology replacing even skilled workers. Others see work becoming polarized with good and bad jobs and not much between. Or, in another version, large amounts of work will become insecure, with weakened attachments to stable jobs.

Many of these more radical scenarios became prominent in the early and middle 1990s (Rifkin's *End of Work* was published in 1995, for example) and subsequent analysis has tended to undermine their credibility by uncovering more continuity than was at first suspected. For example, the tenure of employment and the duration unemployment have, in fact, not changed all that much over recent decades and many changes that first appeared to be structural were mainly adjustments to different shocks.

Nevertheless, because the changes have not yet occurred, this does not mean that deep change cannot happen in the future. It would be imprudent for policy to discount the possibility of a future lack of jobs either, in total or for people at specific skills levels.

Radical scenarios still call for about the same approaches to skills acquisition policies, although changes on other policy fronts would be needed.

If there were not enough work in total, a higher level of generic skills would, for example, help people play an active, constructive role in non-market activities.

If the problem is potential polarization, an increase in the level of overall skill will, over the long term, cause employers to adjust in order to maximize use of a less polarized supply of higher-level skills — through adjusting the balance of labour and capital, the way jobs and workplaces are structured and patterns of locating work in Canada or abroad.

If the problem is contingent and unstable job attachments over life, higher generic skill levels will help workers become more mobile and otherwise better manage in a labour market with less stable jobs.

If we simply do not know, the same prescription holds — with a caveat.

Some foresee large economic change — with the knowledge revolution constituting a new paradigm — but cannot predict what the skills implications will be. By definition, the effects of a paradigm shift are unknowable before the event.

Therefore, flexibility is the goal in this scenario and this, as well, suggests higher levels of generic skills, more people with post-secondary education and strong systems of lifelong learning so that people can adapt to changes quickly.

As the text describes, this analysis assumes that investments in learning are effective and that other kinds of interventions do not work any better. In reality, our empirical understanding of social investments and returns is surprisingly weak. A key new challenge for policy is, therefore, to develop the tools needed to make social investments effective.

Second, and much more important, we are near to the point of having the practical tools needed to measure the effectiveness of specific learning investments. The payoffs are potentially dramatic and, as will be argued in the next chapter, could lead to a fundamental transformation of social policy.

Third, we are also near the point of finding a solution to a big obstacle — workers without enough time to undertake formal learning. As will be explored later in this chapter, it should be possible to find that time (within a 5- to 10-year time frame) by means of life-course reallocations.

3.3 Taking account of new drivers of policy change

Today's policy focus on human resources development and lifelong learning for all provides a good basis for future policy evolution. However, learning is not the only driver of policy change. Many existing social and economic policies will continue to be relevant over the medium term, and new drivers of change will emerge. This section opens a discussion of the new forces that are most likely to shape that future evolution.

The Appendix examines possible future trends in a full range of the socio-economic determinants of economic well-being. It proved surprisingly easy to divide these trends into three categories:

- Those trends that supported a continuation of the existing emphasis on lifelong learning, as discussed above.
- Those most likely to be the big, new drivers of medium-term policy change. Two stood out from the rest: first, the changing ratio of producers to consumers; and second, changing retirement incentives that are likely to occur in the medium term.
- Those that could be safely treated as smaller additional considerations or as components of main drivers of change. These are briefly summarized in a list of “dark horses and honourable mentions” at the end of this chapter.

The criteria used

The following criteria were used in distinguishing the big policy drivers from the honourable mentions:

- The empirical evidence about likely directions, and the scale of the future trends, had to be reasonably strong.
- The likely effects of the big policy drivers had to match the medium-term scope of this paper. We are not attempting to identify the items that should be on today's policy agenda. We are not interested in problems that may emerge in the distant future. We are interested in things that are likely to be big news in about five years' time.
- The pressures they created would be such that significant policy responses would likely be needed. (Many large pressures can be accommodated by normal adjustments that take place in families and markets, without the need for policy change.)

- The policy responses that are required are within the scope of this paper. The diffusion of technological innovation might, for example, be an important factor in explaining the productivity gap with the United States. It is not included here because the policies involved are mainly outside the scope of this paper.

Socio-economic scenarios — a path not followed

The comparative ease with which the big drivers could be identified meant that it was not necessary, or desirable, to develop socio-economic scenarios of the future, the more usual approach of dealing with a highly uncertain future.

In traditional scenario-building, a key economic determinant of economic well-being (typically productivity or economic growth) is compared with a key distributional determinant (typically poverty or polarization). High and low projections of each are defined, creating four outcomes or scenarios for the future (e.g. high productivity/high polarization; high productivity/low polarization, etc.). Then policy scenarios are constructed that would be suitable for each of the four socio-economic scenarios.

The traditional approach of building socio-economic scenarios was attempted in earlier drafts of this paper, but proved to be unhelpful.³⁰ It failed to take proper account of the fact that existing policies were already in the state of evolution — already anticipating many of the most important pressures that are likely to appear. Moreover, the various socio-economic scenarios that were tested simply did not set up a useful discussion of some of the most interesting issues that are, in reality, already on the policy agenda — life-course perspectives, the shift to asset-based policies, changing conceptions of equality/equity and inclusion, or different ways of using policy to address the needs of the most disadvantaged.

We are in somewhat unfamiliar policy territory — facing a world where the big medium-term drivers of policy seem to be surprisingly easy to anticipate. The larger uncertainties lie in the extent to which individuals and markets will automatically adjust to these pressures in the absence of policy change. Scenario-building is, therefore, most useful at the level of policy responses. That is the subject of Chapter 5.

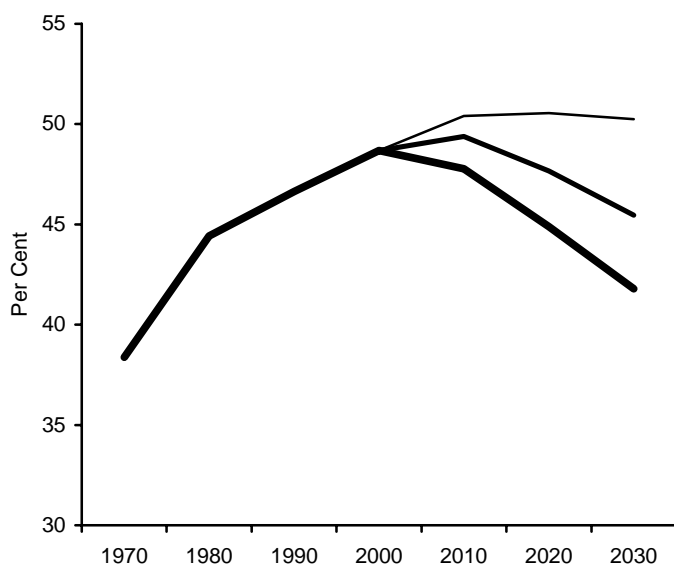
3.4 First new driver of change: The changing ratio of producers to consumers

We start with a trend that could greatly affect the size of the economic pie, a fundamental determinant of economic well-being. This is the growth in recent decades in the percentage of the total population that has been employed — and the flattening out, or decline, in that trend starting around 2010 when the baby boom generation will start retiring in large numbers. The chart, taken from the Appendix, shows three reasonable scenarios that were developed by the OECD to show the wide range of outcomes that are possible between now and 2030.

Everyone participates in the consumption of goods and services, but only a portion of the population contributes to their production.

³⁰Traditional scenario building is a useful technique in comparing socio-economic variables that are key to the policy at hand and where much uncertainty exists about outcomes. That does not apply in the case of policies under review here. As noted, there is a need for an emphasis on skills and learning in just about any view of the future. And, in terms of the new trends, one is almost certain to dominate all others — the changing ratio of consumers to producers. And this trend is reasonably predictable, being mainly driven by the underlying demographics.

Figure 8: Percentage of the Total Population That is Employed in Canada, 1970-2000, and Three Plausible Outcomes for 2030



Source: OECD (2000a).

Notes: The middle possibility is based on assumptions used in OECD baseline projections (see OECD, 2000a). The higher possibility assumes that the labour force participation rates of men in older age groups grows such that by 2030 it returns to the same level as in 1970. The lower possibility is the symmetrical opposite. The upper and lower bounds for women assume participation rates for older women that are five per cent higher and lower than the middle possibility.

A large shift in the ratio between consumers and producers represents a profound change in the determinants of economic well-being. For decades, the ratio of producers to consumers has been increasing almost steadily. In a decade's time, that will change — perhaps dramatically. This is a central story, pointing to the

- underlying job-creation strength of the economy, which provides a strong base for the future. The economy was able to convert a huge influx of women and baby boomers into large gains in GDP per capita and, as described in the Appendix, into other gains in economic well-being as well;
- deep medium-term pressures ahead. This includes the labour shortages that seem almost certain to occur as women's participation approaches that of men — during the same period when the baby boomers will be retiring.³¹ It includes fiscal pressures whereby spending on older people could crowd out spending on other population groups. More profoundly, we will experience a fundamental change from a world where there was an almost steady increase in the ratio of producers of goods and services to the whole population that consumed those goods and services;
- opportunity for policy making. Policy can make a big difference in influencing the ratio of producers to consumers, especially around the timing of the work-retirement decision. And it can do this in win-win ways as will be shown later.

³¹Assuming, as one must in these planning exercises, that there will not be a large cyclical down turn or other catastrophe during this period.

The Appendix refers to a number of potential ways of increasing the producer-consumer ratio. Unemployment and underemployment could be reduced. Immigration might play a small role. Even greater labour force participation by women would work in the right direction, but most progress on this front has already taken place. The only large pool of unused labour supply is among older people. By far the greatest effects on the producer-consumer ratio would come through increases in the effective age of retirement.

Why has the producer-consumer ratio received so little policy attention?

It may seem surprising that the producer-consumer ratio has received so little policy attention given that it has the potential to deeply affect each of the determinants of economic well-being discussed in Chapter 2, and to do so within a period of only 5 or 10 years in the future. We have concentrated heavily on the skills of those who will be working, but have paid little attention to the amount of time that will be spent at work using those skills. For example, the recent reviews of pension policies dealt with the issue of effective retirement ages only in passing, even though the demographic pressures were well-known.

Employment growth trends, as illustrated by the producer-consumer ratio, has been neglected for perhaps three reasons — some legitimate, but others suggesting a little laziness in our thinking about the future:

- First, it may be felt that markets will adjust to changing labour supply without much need for government support. For example, some of the large incentives to early retirement that are found in other countries, such as those associated with final-salary defined-benefit pensions, are less serious in Canada.
- Second, social policy analysis may have relied too heavily on some easy-to-calculate, but misleading, indicators borrowed from demography. Demographers have long used a concept related to the producer-consumer ratio — the “dependency ratio,” which measures the size of older population (age 65 and over) and youth population in relation to the size of the “working age” population (usually defined as 20–64 years of age). This ignores the fact that people do not, in fact, enter and leave the labour force at the ages of 20 and 65. (If one starts with “dependency ratio” thinking, policy responses are typically defined in fiscal terms — how we adjust our financing to meet the inexorable effects of aging on social expenditure. This makes sense for demographers, but misses the point for social policy analysis. The real driver of change is not the age structure, but the time spent in work, particularly the timing of retirement. Little can be done in the medium term about the population’s age structure, but policy can, and should, significantly affect the age of transition to retirement — and other transitions such as from school to work.)
- Perhaps most important, the problem of labour shortages has yet to materialize. It is hard to focus on the issue when so much current thinking is influenced by concern about past, or even current, high unemployment levels.

The first point, that major policy action may not be needed, may prove to be correct. However, it seems to be an imprudent position given the lack of evidence in this area. A safer assumption would be that there is an entrenched culture of early retirement that will be difficult to overcome without concerted policy action on several fronts.

The second point about lazy thinking, and choosing appropriate measures, can be easily addressed by using more appropriate data. The next chapter discusses ways of improving our statistics.

This final point about unemployment has been an important, legitimate deterrent to thinking about later retirement. However, it will become increasingly less relevant as the baby boom generation approaches retirement age. Even now, the media are paying increasing attention to the prospect of future labour shortages and working longer in life.

3.5 Second new driver of change: Changing retirement incentives and the lifetime re-allocation of leisure

The second of the big policy drivers is closely related. It consists of changes in the incentives that influence the timing of retirement and the abruptness of the transition from work to retirement. Changes in retirement patterns create both opportunities and pressures with respect to the re-allocation of the enormous pool of leisure (defined here simply to mean time not in work) that has grown up among people when they older.

People have been spending a lot more of their lives in school and, especially, in retirement. The drop in the percentage of time that men spend in the labour force has been quite extraordinary over this period — as can be seen from the dramatic chart, which was taken from the Appendix. It deserves careful attention.

Figure 9 shows an OECD estimate³² of the balance of time that men can expect to spend over their lives in work and out of work — with growing periods of time spent in retirement being a main driver. The implications for economic well-being policy are potentially profound, yet largely ignored in the literature.

The chart clearly shows the enormity of the transformation that has occurred. In 1960 Canadian men could expect to live to about 68 years, with 50 of those years spent at work and the remaining 18 spent in school, in sickness, or being unemployed or retired. Today life expectancy has increased to 78 years — with half of life expected to be spent out of work. The story for women is complicated by their increasing labour force participation in their middle years, but the pool of leisure is equally growing for women in their older years.

Once again, this is a story of strength on which we can build — the fact that the economy was strong enough to create all this leisure at the very time it was employing an ever-growing percentage of the population (mainly as a result of the population aging and more work by women). We created, by accident, a huge, currently little-used pool of human resources — skilled, healthy retired people, many with too much time on their hands.

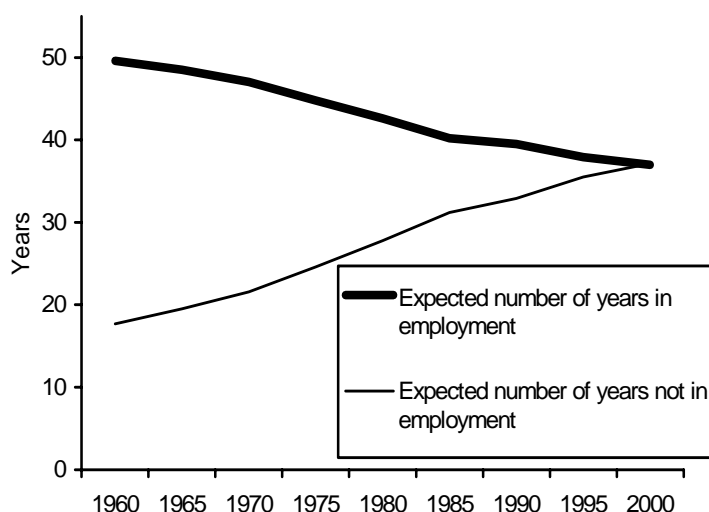
It is also a story of opportunities and pressures ahead. Baby boomers who will be retiring in 5 to 10 years will be in very different circumstances from past retirees:

- They will be more highly educated, healthier, and have much longer life expectancy.

³²The OECD calculations show that the Canadian data on expected years in employment for men is almost identical to the OECD average — with the two lines in the chart having crossed slightly earlier in Canada. Statistics Canada has published a similar analysis (see Sunter, 2001).

- They will be much more likely to hold post-materialist values that favour an active life in society. Life in retirement today is marked by high levels of passivity. The fifth chapter amplifies on the theme of post-materialist values.
- And — a big change — they are more likely to face a labour market that will want their continued participation, as discussed in the preceding section.

Figure 9: Number of Years Men Can Expect to Spend in and Out of Employment Over the Course of Their Lives



Source: OECD (2001a).

In essence, people do enjoy their early retirement years, but it goes on too long and, with continual improvements in health and longevity, pressures for a more rational reallocation of work and leisure will grow. Much of the time spent in retirement is passive, unhealthy, and unwanted. Social cohesion is typically defined in terms of exclusion from mainstream society or in terms of the capacity to live up to one's full potential. In either case, retired people must constitute the largest, and fastest growing, source of social exclusion today.

In the past, pressures for a more sensible allocation of work and leisure over the course of life have been offset by a complex of factors that favour early retirement — especially the lack of suitable jobs for many older workers. But these offsetting pressures are likely to disappear in the medium-term.

The pressures for change are likely to come from people who are entering the phase of life when retirement normally occurs, but also from people of all ages who would like to see that leisure reallocated to more productive uses at earlier stages of life. That is, the other half of the story is that, at present, there is too little flexibility in the use of time at earlier stages of life. People feel that they do not have enough time for formal learning during their working years. As discussed in the Appendix, there are large time pressures, particularly for women, in combining work with raising children and, increasingly, in caring for frail parents.

3.6 Endnote to driver list: Dark horses and honourable mentions

The Appendix contains many examples of possible trends that could be important to policy in the medium term but were not included as separate items in this chapter. A selection of these is described in this endnote. In most cases, the conclusion is that the topic is important, but better treated as an important consideration in formulating policy responses than as an independent driver of the medium-term policy agenda.

What about cities and neighbourhoods?

It is clear that there is growing inequality in urban neighbourhoods, but for reasons that differ by city. It is also clear that neighbourhood issues interact with issues of the five high-risk groups. Off-reserve Aboriginal people and recent immigrants are, for example, over-represented in poor urban neighbourhoods. It is also clear that neighbourhoods matter in the area of crime and the quality of public spaces. Neighbourhoods are where social inclusion and exclusion happens.

But clarity ends at about that level of generality. Most of the determinants of economic well-being are not, as was discussed in preceding chapter, strongly linked to neighbourhood effects — at least in most Canadian cities. The balance of evidence suggests that (perhaps in contrast to some American cities) living in poor neighbourhoods is more a consequence than a cause of low standards of economic well-being.

More generally, much recent policy analysis has focused on geography, especially the importance of cities, including notions of city-states, or region-states, in a globalizing economy. This new spatial perspective has helped us better understand the importance of cities. It has given renewed emphasis to the role of public spaces and local services. It has been a useful antidote to the former spatial focus on marginal rural regions, on restructuring in single industry towns and on community economic development in smaller, isolated centres. It has clarified the relationship between the local and the global.

That said, it is quite unclear whether these considerations lead to any different views on what would constitute good economic well-being and skills acquisition policies. The main findings relate mainly to issues of coordination, decentralization, accountability, and adequate funding. This suggests that the policy implications have more to do with governance — financing, coordination of services and supports and who is charged with design and delivery — than with the content of the policy designs themselves, which is the focus of this chapter.

What about social capital?

Another issue of much current interest is the role of social capital — networks of contact and support — in fostering economic well-being. The analysis in the Appendix is enthusiastic about the potential of social capital as a policy tool, and advocates development of some particularly promising new approaches to network analysis. However, at the end of the day, the analytic work is simply not far enough advanced to sustain any strong policy conclusions that can be used to shape the medium-term agenda. Section 6.3 discusses ways of providing the data that will be needed to support the development of social capital analysis — and ways of linking social capital data to data on human capital and on vulnerable groups.

What about bad jobs, polarization, and intergenerational equality?

If there were continued polarization of either hours or wage rates, that would certainly become *the* big policy issue. If younger cohorts continue to be disadvantaged compared with older cohorts, there could be obvious consequences for policies — certainly bringing into question the intergenerational contract that underlies the tax-transfer system. Indeed, the evidence shows that the intergenerational story and the polarization story are linked. If polarization persists, it will be manifest in inequities across generations.

There is, however, too much uncertainty about future trends to consider these problems as clear policy pressures at this point. It would seem likely, in particular, that the situation will change greatly for the generation that entered the labour market in the difficult labour market of the 1990s once the existing baby boom generation moves into retirement. Anticipated future labour shortages, together with continued improvements in learning, may well be sufficient to solve these problems in the absence of major policy action. As noted earlier, the existing learning agenda would, as far as can be seen today, likely to be the best policy response. For example, if younger male cohorts continue to have poorer earnings (compared with older cohorts) even with stronger labour demand, then stronger mid-career learning would seem to be an inevitable part of the policy solution.

A watching brief is therefore required, not immediate new policy action.

Not enough jobs? Too much unemployment? Job-sharing? Social Economy?

As recently as several years ago, the concern was that technology would replace jobs at all skill levels and that, without major policy action to redistribute work, there would be too few jobs to go around. This argument may still make sense in the very long run, but seems implausible over the medium term being considered here. The main, if under-reported, policy story of recent decades has not been of job shortages but of job creation, as reflected in the increasing percentage of the population that is employed.

Despite the above-mentioned possible long-term structural trends towards fewer jobs, it is cyclical unemployment that has been a larger driver of social and economic policy for decades. Does a concern about unemployment just vanish from the policy agenda? The answer, of course, is that protection against the risks of cyclical unemployment will, along with many other things, be a continuing item on any policy agenda. But, if the analysis of the Appendix is correct, it is unlikely that it will be one of the main pressures driving the medium-term agenda. Once again, over the medium term, an agenda dominated by labour shortages seems much more likely.

The same considerations apply to ideas like job-sharing, or expanding the social, not-for-profit economy as a tool to create more jobs. These things may be desirable for many reasons, but the main theme in this time period should be on increasing the number of workers, not the number of jobs.

What about the concentration of disadvantage? What about poor children?

On the surface, it might seem reasonable to treat the concentration of disadvantage into five quite distinct groups as a main driver of policy — with initiatives addressed to each group or to particular subsets of the disadvantaged such as poor children or the homeless. Policies for poor or disadvantaged children have attracted the most attention.

The existing policy framework — with its emphasis on human resources development — already puts a high weight to children, particularly on the role of early childhood as the starting place for a successful life. Income support for children and time off for parenting have already received priority attention. However, some would go further, especially given the lack of success to date in eliminating child poverty, and would have tomorrow’s social policy agenda virtually revolve around children. This may seem to be irrelevant in a paper that is primarily addressed to the economic well-being of the working-age population, but it would clearly be important if it were shown that the economic well-being of adults was mainly set by conditions when they were themselves children.³³

As noted in section 2.5, however, the research on the transmittal of low incomes and low educational attainment from generation to generation does not really support an exclusive medium-term focus on children. While children clearly remain a key element in the policy agenda, children’s policy needs to be embedded in a more comprehensive approach to human development³⁴ and social inclusion — including a way of addressing the growing concentration of persistent disadvantage — including child poverty — in five quite clearly defined at-risk groups.

For purposes of medium-term policy research and development, the best approach is almost certainly to first step back from a focus on a particular group — whether children, certain high-risk groups, or the homeless — and examine the implications of powerful changes that affect all these groups: new approaches to assets, new life-course perspectives, caregiving trends, new balances between equality of outcomes versus equitable opportunities, etc. This more general approach is explored in the next chapter.

What about time crunches, work-life balance, and quality workplaces?

A good deal of the current policy literature focuses on the importance of job satisfaction, flexible work arrangements, and time stresses in its discussions of productivity and competitiveness, gender equality, and perceived well-being. The issues are important (with implications for health and caregiving), but treating them as independent issues, requiring their own policy response, is unlikely to be successful.³⁵

What drives feelings of time pressure and unhappiness is not, surprisingly, the hours spent at work or the work-life balance *per se*, but whether people like their work. A focus on quality workplaces would therefore seem to be a better policy lever. Indeed, Lowe (1999 and 2000) has made a strong argument for a policy focus on the workplace context. Key productivity and skill linkages can only be answered in the context of workplace cultures — the “barriers and incentives to workplace innovations that support a learning culture and high-skilled work.”

Work-life balances and quality workplaces are important. However, they are best captured not as separate pressures to be addressed in isolation on the medium-term agenda, but as key dimensions of the broader policy pressures associated with lifelong learning, future labour

³³As well, policies directed to child poverty are, for the most part, actually aimed at the income situation of their working-age parents and only indirectly at the resources received by the children.

³⁴A very heavy focus on children is, for example, a manifestation of a new emphasis on social investment, on equitable opportunities for the future. However, this is best seen as an antidote for the present over-concentration on income adequacy and equality in the present, not as a complete replacement for it. Some sort of balance needs to be found between starting off life as equally as possible and equality/equity/adequacy at different discrete stages of life.

³⁵Data in section A.8 of the Appendix shows why time stresses and time crunches are unlikely to provide strong policy levers.

shortages, working longer, and life-course flexibility.³⁶ With growing labour shortages on the horizon, work-life policies that are ultimately about reducing time spent in work are unlikely to be successful. Policies that are about reallocating a large existing pool of leisure in old age to younger stages of life seem more promising.

What about differences among provinces?

The analysis showed persistent difference in economic well-being across the country, with people in Ontario and the West doing better than those in Quebec and the East. As well, there are differences in other measures, such as skills levels among students where Alberta and Quebec do best. These interprovincial differences, at least as they relate to economic well-being, have been quite stable over time.

Do these persistent regional differences constitute a pressure that requires new policy action or a new way of organizing the economic well-being policy agenda over the medium term? Probably not. Many of the differences arise from the differing structures of provincial economies that are not greatly affected by the policies within the scope of this paper. Equalization, and fiscal federalism generally, were intended to provide reasonable equality in the capacity of provinces to fund services such as education and social assistance. Employment Insurance is a national program with strong benefits in regions with high unemployment. As well, as described in the Appendix, people do adjust to economic conditions through interprovincial migration. There is nothing in the analysis that suggests obvious better approaches — at least within the scope of the policies being reviewed here.

What about other sources of labour supply?

Women still do not participate as fully in the labour market as men, although the catch-up has been dramatically fast. The gap between men's and women's participation will narrow further with the passage of time. An even further acceleration of the growth of women's participation would, of course, improve the producer-consumer ratio. However, it is hard to imagine large gains beyond those that are already occurring. The most important policy levers to encourage higher participation would, in any event, be those that have been already identified — those related to life-course flexibility, to allow more choice in mixing work with caregiving and the other activities of life.

Bringing marginal unemployed groups more quickly into employment would, again, increase the producer-consumer ratio. But again, this has already been covered under the broader headings of learning and life-course inclusion.

Immigration, obviously, is a critical policy area in its own right but, as it pertains to the economic well-being of the working-age population, it is well covered under other headings. Immigration can play an important role in determining the skills composition of the labour force and, for purposes of an economic well-being agenda, it would seem best to handle immigration by treating it as one element of that larger skills story. As well, recent immigrants are on the list of high risk groups, as discussed in the next chapter. In principle, the different age structure and

³⁶A broader lifelong learning and skills orientation would, for example, place much emphasis on learning more about how skills are acquired and used in the workplace, encompassing a central concern that would also be addressed by a quality workplace agenda.

working-life patterns of new immigrants could have some effect on the producer-consumer ratio, but it would be small.

In principle, emigration could also affect skills. However, as the Appendix also points out, the brain drain numbers are too small to have a large influence on broad public policies.

Chapter 4

Main New Strands of the Policy Response

4.1 Overview

Chapter 3 described the big drivers of policy. The main driver is a continuation of the competitiveness and social cohesion pressures that have led to today's emphasis on skills and learning as set out in Canada's Innovation Strategy. As described in the last chapter, that means that key policy responses must focus on early childhood development and child care, raising generic skill levels across the skills spectrum — especially at the bottom, and increasing incentives to learning throughout life.

The Innovation Strategy has set out a path for policy development in this area and is therefore not covered at length in the remainder of this paper, although the discussion in this chapter of making social policies effective is closely related.

Rather, this chapter describes a series of newer, additional elements that are also likely to form a major portion of the policy response. Here, these strands are considered separately. The next chapter will discuss how they could be woven together to form different overall medium-term strategic approaches.

A goal of the chapter is to formulate a set of individual responses that will invite win-win policy solutions. Section 4.2 sets out a large list of possible directions that flow out of the analysis of the paper and from the wider international literature on the subject. It then identifies the criteria that are used to identify potential win-win solutions. Four strands of a policy response meet these criteria:

- Section 4.3 deals with ways of simultaneously addressing the long-term goal of greater life-course flexibility while also encouraging more time over life to be spent in work and, in the middle years of life, in learning.
- Section 4.4 deals with new approaches to supporting social inclusion over the course of life, using policies that take account of a range of assets as well as income.
- Section 4.5 explores the dramatic possibilities ahead for more effective social investments, particularly investment in skills and in labour market integration interventions.
- The sixth section deals with creating accountability in an increasingly complex system that includes both orders of government and civil society. It describes means of harmonizing vertical integration (decentralization versus ministerial accountability) and horizontal integration (joining up many policy streams to produce holistic, coherent solutions). It outlines an evidence-based framework for consultation, planning and accountability that could operate across the whole system without threatening the mandates of particular players in that system.
- The final section briefly concludes the chapter.

Box 2: Representative Views on the Future of the Welfare State From an International Perspective

Views of Gosta Esping-Andersen

Esping-Andersen (1999) stresses that the new welfare state must simultaneously address dysfunctions in three domains: *family* (adequate incomes and jobs), *state* (stronger tax base, higher fertility because of aging, more people in work and off welfare), and *labour market* (more flexibility, more demand for services, including domestic services). The difficulty arises as the means of optimization in one domain can make things worse in another. In these circumstances, win-win solutions must be sought, but they often come at a high price.

- For example, a potentially win-win-win outcome would be two-earner families with a larger number of children *and* who therefore had to purchase additional household services such as child care *and* who demand more working-life flexibility. But such solutions are difficult to engineer using existing policy levers.
- Earnings supplementation is an attractive policy lever because it is also potentially win-win-win — simultaneously addressing flexibility in the labour market, income in families, and reduced welfare cost by states (and this can work, as the Canadian experiments show — in some circumstances, provided expectations are not unrealistically high).
- Investing in skills, perhaps the most common response, can also be win-win, but again it comes at a considerable cost and, with the empirical evidence currently available, it is not possible to quantify the returns from investments in particular kinds of skills and for whom.

More recently, Esping-Andersen (forthcoming) argues that the new welfare state will address four tightly interrelated challenges:

- First, new family policy must harmonize careers and parenthood and must grant children security and a positive learning environment.
- Second, this must be done in a way that creates a more egalitarian equilibrium between men's and women's lives.
- Third, active learning policies (investing in skills) must include a preventive (early learning) family policy in order to address social exclusion.
- Fourth, a new generational contract is needed with respect to financing old age.

Views of Harvey Lazar

Lazar (2000) provides an insightful analysis of pressures on the welfare state and, building on his experience as a senior policy official in government as well as in academia, is able to express the likely response in helpful terms. He sees that future policies will have to

- go well beyond today's approach of targeting of benefits to most needy groups to a more holistic tailoring of provisions to individual experiences;
- greatly extend active labour market programming as a prerequisite for a better balance between social protection entitlements and self-sufficiency. In turn, for these to work, they must be associated with employment incentives as well (such as earnings supplementation and the reduction of tax wedges).
- Be situated within a broader policy-making focus on economic growth. In this context, active labour market measures can be one means of avoiding skill shortages;
- come to terms with issues of habitation. Since being unattached is a key source of disadvantage, policy must encourage (or, at least, not discourage) co-habitation (e.g. co-habitation by students, by single parents who wish to follow this route); and
- rely heavily on administrative innovation. New approaches will be needed by public management — from being able to assess the outcomes of active labour market programming, to working across many traditional governmental lines, and in broader networks of organizations including civil society, and to developing global governance frameworks for social policy in a globalizing world.

Each of the substantive sections follows a common format. First is a brief summary of the situation today and then an outline of the main challenges for the medium-term. Next comes a proposal about what might be done — what might be the next steps in policy R&D. Finally, there is an assessment of the win-win potential. In most cases, the possibilities look promising. There seems to be potential for exciting gains ahead.

4.2 Win-win policy responses

Most developed countries face quite similar challenges as they develop policies to support economic well-being. Indeed, a rich literature has grown up on likely future directions — although these directions are typically cast at a very high level of generality. This chapter draws on this received wisdom, along with conclusions drawn from the analysis found in this paper, to construct a list of common elements that would be found in virtually any package of policy responses to the policy drivers identified in Chapter 3. As was the case with the policy drivers, the intention in this chapter is to develop a list of those elements of a response that would be widely accepted by people with quite different views on the overall goals and directions for social policy. (We discuss diverging views in the next chapter.)

This opening section quickly reviews common themes that are found in the literature and then explains how they can be formulated in a way that invites win-win outcomes in Canada.

The new welfare state and new social citizenship

Important international literature searches for an answer to the question of how tomorrow's social policy can actively promote the knowledge economy while stemming social exclusion and poverty. Existing social protection may hinder competitive knowledge-based economies and may be inadequate to meet evolving risks and needs. For example, a 2000 Council of the European Union document argued: “the people of Europe are its main asset and main focal point for its strategies. Investing in people and developing an active and dynamic welfare state will be crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social security, and poverty.” It is hard to find opposing views.

Box 2 provides examples of the conclusions of two knowledgeable authors who have published their thoughts on the future of the welfare state. Themes similar to these are common in much thinking about the future of the welfare state in Europe and North America.³⁷ Similar views have emerged at high-level international conferences³⁸ such as conferences of OECD ministers.

The welfare state literature is written from the perspective of the state. A closely-related literature takes the perspective of individuals. This results in discussions of changes in social citizenship³⁹ — changing expectations about the social contract between individuals and the state.

³⁷Canadian thinkers (Myles, Banting) have written on similar themes. Lazar is Canadian. Esping-Andersen is European.

³⁸Canadian Ministers and officials have played a leading role at international conferences devoted to this subject.

³⁹Following Jane Jenson (2001) on whose work some of this analysis is based, citizenship encompasses: (1) rights and obligations — what the state owes to citizens, citizens owe to the state, and citizens owe to each other; (2) access to those rights; and (3) belonging — citizenship defines the boundaries of belonging, giving specific recognition and status to the ones entitled to participate and benefit from the political community.

The following are conclusions about future policy directions that are common to both sets of literature and are also consistent with our analysis of the Canadian situation:

- A shift towards policies that provide greater choice in the allocation of time across life to work, learning, volunteering, leisure, and caregiving⁴⁰ (encompassing, among others, the concepts of lifelong learning, gradual retirement transitions, and work-life balance).
- Even greater focus on skills investment and labour market flexibility — reflecting globalization pressures and re-enforcing life-course perspectives such as lifelong learning. Includes an even greater focus on the earlier stages of life, fertility, and early childhood development.
- A shift from basing policies mainly on income to a combination of income and assets, including a greater role for human capital, but also a greater role for policy-supported individual savings accounts of various types, and for housing policies.
- A shift away from viewing the macro economic effects of social policies in terms of their internal stabilizing effects and towards their role in international competitiveness through human capital investments.
- Recognition (a somewhat reluctant recognition on the part of some) that, in a globalizing society, markets are best supported by longer-term investment in skills and by removing policy-induced barriers to labour force flexibility rather than by shorter-term measures to support the stability or earnings of particular jobs. It is also recognized (or, at least, thought to be inevitable) that the result will be more short-term job insecurity and, possibly, an increase in earnings inequality that will need to be compensated for elsewhere in the system.
- A shift from heavy reliance on income transfers to (a) services (including training active labour market programming) and to (b) information, promotion, and prevention as products and roles of government.
- More emphasis on policies (such as earnings supplementation, life-course flexibility or incentives that affect living arrangements) that are deliberately designed to simultaneously meet needs that arise from changes in the role of state, labour market, and family. The new policy concern about maintaining and increasing fertility levels is typically seen in terms of means that allow care of children to be better integrated with working life and learning.
- A shift from tackling class/hierarchical divisions and towards inclusion/exclusion divisions. This involves a shift from promises based on an income safety net against life risks and towards promises based on the existence of a trampoline into the labour market — a shift from addressing lack of income due to life risks such as unemployment and towards addressing exclusion as a result of a lack of assets, particularly skills (i.e. human capital).
- A shift in the “liberty-equality-fraternity” balance in the direction of more emphasis on liberty (individual choice) and on fraternity (social cohesion) and a consequential shift in emphasis away from equality of outcomes as the immediate policy goal and towards more equitable opportunities over the course of life — and towards supporting people in fully using their

⁴⁰As will be discussed later, in the medium term, policy is not likely to be neutral among the choices made. Priority is likely to be placed on incentives that encourage more time over life to be spent in learning and, especially, work.

capacities.⁴¹ These repackaged goals, when taken as a whole, are sometimes referred to as social inclusion.

- A weakening of the tight linkage between benefits and current labour market income. A range of family and community resources would also be taken into account, as well as individual savings to support, for example, short periods of joblessness. As well, some benefits could be provided on the basis of general citizenship status as opposed to job status.
- A rethinking of the retirement contract — both in the financial roles of people when they are working and when they retired, and in the balance of work (paid and voluntary), caregiving and leisure in later years and earlier stages of life.
- Shifts to policies that reflect “post-materialist” values — including less priority to income security and more to health, culture, extending social rights, and active participation in the economy and society.⁴²

Possible win-win policy responses for Canada

The list above provides a good, if much too long, starting point for identifying those new policy responses that make the most sense for Canada. Policy responses can be framed in many different ways. The intention here is to identify a more manageable set of potential responses, particularly those that invite win-win outcomes. Box 3 identifies the criteria that were used for finding such win-win solutions.

Four new strands of policy response met these criteria. These are explored in the following sections.

4.3 Towards more work and learning, better allocated over life

Today flexibility and working longer are seen as trade-offs that are often in conflict

More learning, more employment, and promoting life-course flexibility are hardly new policy ideas. Staying in school longer, building a strong post-secondary capacity, affordable access to education, training for labour force integration, and encouraging private sector training are long-standing policy goals that have had the effect of increasing the time spent in learning. As well, there have long been policies that have had the effect of increasing the producer-consumer ratio, but with some digressions and some unintended effects:

- In the past, the main thrust has been on economic policies that support a strong economy and full employment, and social policies that help the jobless get back to work. Gender equality policies helped increase female employment. These directions all encouraged growth in the producer-consumer ratio.

⁴¹This reading, which is a variant on Sen, is implicit in much recent literature, but there would be no consensus around this particular “liberty-equality-fraternity” formulation. Note that shifting to equitable outcomes and supporting people in living up to their capacity as the immediate policy goal is entirely compatible with a longer-term concern for equality of outcomes. For example, a concentration of policy today on raising the skill levels of people near the bottom of the skills spectrum may, in reality, be a strong tool for achieving a more equal distribution of income later in life.

⁴²Possibly following September 11 there may be shifts that place higher value on: public as opposed to private goods, collective as opposed to individual rights, and on physical as opposed to economic security. However, early public opinion surveys suggest that September 11 may have had surprisingly little impact on Canadian public values or sense of security (Jackson, Tsoukias, Buckland, & Schetegne, 2002).

Box 3: Criteria for Finding Win-Win Policy Solutions

First, win-win responses supplement normal market forces,

For example, in the past life-course flexibility would not have been a good policy lever to increase the producer-consumer ratio. Unemployment was a key problem and life-course flexibility (parental leave, actuarially reduced pensions for early retirees, work-sharing, etc.) typically involved trade-offs that, in consequence, *reduced* time spent in work. In the medium-term future, life-course flexibility can make sense as a device for increasing time spent in work because, given appropriate policies, it can support, not fight, dominant market forces which are likely to encourage an increase in labour supply.

Second, they exploit untapped resources.

For example, in the past, Canada's considerable success in reducing income inequality (dramatically so in the case of older people) and keeping public costs low was the result of greater targeting of benefits that were once provided universally. It was, by definition, a one-time win-win solution. The analysis here suggests that the pool of leisure among older people is a comparable source of win-win outcomes today — on a variety of learning, caregiving, labour market, and other fronts.

Third, they address issues at a higher order of generality.

In the short run, it usually makes sense to frame policy issues at a level of generality that corresponds with existing organizational mandates or policy boundaries. Jurisdictional complexity can immobilize action on issues that go much beyond one's own mandate.

However, addressing policies that deal with the lifelong learning or the retirement decision issues on a piecemeal basis equally makes little sense. The mandates of several programs and agencies are invariably involved, and independent action often simply results in the unintentional off-loading of problems to other systems.

In the medium term, however, it is possible to contemplate changes in mandates or, more often, to find new means of coordination across agencies, as will be discussed later in the chapter. Shifting to higher-order life-course perspectives therefore becomes a possibility — allowing us to tackle a range of problems that seem intractable when addressed on a one-by-one basis.

Take lifelong learning as an example:

- Using lower level objectives — such as “supporting training for existing workers” — can cause many practical problems. One is that there is not enough time today for workers to engage in much additional training, a problem that is likely to become much worse in the medium term given expected future labour shortages. Another is that training people does not mean that they will acquire skills that are, in fact, subsequently used and rewarded in the labour market. Still another is that, if the training is useful, much of it would be provided in any event, without government support.
- Using higher order objectives — such as “supporting life-course flexibility in such a way that time and resources are available for learning in mid-career” — makes it easier to address the fundamentals while leaving the particular content of that training to individuals and employers.

Take income security programming as another example:

The low-level goal of improving efficiency in Employment Insurance or social assistance is quite compatible with policy action that simply shifts clients between the two programs. The higher-level goal of “helping the jobless integrate into the labour market” does not lead to off-loading — but it is harder to accomplish as it usually requires co-operative action if it is to succeed.

And, of course, the reallocation of retirement leisure:

If employment policies are viewed in a different compartment from pension and retirement policies, then it is difficult to see the huge opportunities for both workers and retirees that could come from reallocations across these two worlds. That is a main theme of this paper.

- The digressions were policies aimed at easing the effects of unemployment by sharing existing employment among more people at the expense of reduced work for some. Work sharing and early retirement policies are examples. In hindsight, it seems perverse to have had policies whose goal was to encourage people not to work, given the overall strong employment growth that has existed for many decades. However, there were also difficult problems of adjustment and unemployment that made these policies seem rational at the time.
- Finally, there have been unintended effects — policies whose goal was not to lower the producer-consumer ratio, but where reduced work was the (sometimes unintended) consequence. Work disincentives in social programs are an example. In some cases, the negative effects on the producer-consumer ratio are a consequence of achieving some greater good. For example, health policies that have been successful in promoting healthy life expectancy have had the consequence of lengthening retirement durations (in other words, reducing the producer-consumer ratio by shortening the proportion of life spent in employment).

On the life-course flexibility front, goals have primarily been directed to work-life flexibility — particularly standard work week and leave provisions (holidays, vacations, parental leave, etc.). There have also been policies to encourage work-learning flexibility through support of apprenticeship, co-operative education, adult learning, etc. And still other policies have supported a flexible work-retirement transition — for example, by introducing actuarially neutral adjustments in the Canada and Quebec pension plans for early and late retirement.

Past policies directed to employment, learning, and life-course flexibility were, of course, not designed to support the coming challenge of flattened out, or falling, producer-consumer ratios. This is apparent when the interactions among today's policies are examined. Taken as a whole, they encourage an even deeper fall in the producer-ratio:

- Longer schooling and earlier retirement (both supported by policy) means, by definition, less time for work. As well, there is less time for learning during people's middle years.
- This is compounded by working-life flexibility policies (vacation, holiday, parental, and maternity leave) that achieve their important ends by reducing time spent in work or learning, or both.
- Pension arrangements that are designed to allow gradual retirement (a gradual reduction in hours worked over the year) and flexibility as to the age of retirement have, in fact, proved to be strong incentives to earlier, not later, retirement. (This has been the case even in countries that have introduced partial pensions that allow people to combine receipt of pensions benefits and earnings from part-time work. People did ease into retirement more gradually, but they used it earlier in life rather than to extend work later in life.)

Tomorrow, a coordinated strategy of life-course re-allocation centring on the work-retirement transition

Cast at a very general level, the solution is quite straightforward. The work-retirement transition is central to the medium-term policy agenda. There should, therefore, be a coordinated strategy

for dealing with policies that affect the work-retirement transition that would *simultaneously* support

- the longer-term goal of life-course flexibility; providing individuals with greater choice in the duration, intensity, and scheduling of work, learning, caregiving, leisure, cultural and non-market activities over the course of life; supporting wide access to life choice opportunities, including provision of the resources that would allow people to fully use their capacities; and
- the medium-term goal of increasing the total time over life that is devoted to work, learning, and more flexibility over life in caregiving;⁴³ with the increases in learning being primarily in the middle years of life and in early childhood; with more flexibility in how caregiving, including both child care and elder care, is mixed with work and learning; with most of reallocated time coming from a reduction in leisure in retirement. That is, the freed-up leisure in retirement could not be simply reallocated to leisure at other stages of life.

What needs to be done

Much of the basic research that would be needed to translate this general strategy into practical policy has already been undertaken. Canada has been a strong player on aging and life-course issues. As well, there is not much time to prepare. In five years' time, we will be surrounded by baby boom retirement issues.

Likely what is needed is a major consultation process that builds understanding of the issues and the possible effects of a range of policy options. As for starting work, it is useful to think in terms of the preparation of a major document (such as a green paper or a series of consultation papers) to support such a consultative process. The work in preparing material for such a document could begin soon, so that the government of the day would have the option of acting quickly when the time comes. The final chapter describes the possible contents of such a paper.

Win-win potential

This proposed strategy illustrates all the features of the potential win-win gains shown in Box 3: moving to a higher order of generality in defining policy goals, doing so in a way that complements market forces (the anticipated higher demand for the skills of older workers) and exploiting untapped resources (the underused pool of leisure in old age).

There is, therefore, a huge opportunity for win-win policy outcomes. Average levels of economic well-being increase with more people at work. A new source of labour supply is tapped at a time when it will be likely needed. Productivity should increase as a result of more time spent in learning. Increased life-course flexibility not only increases people's work and retirement choices, it opens up the possibility of new choices on a variety of fronts, including caregiving. The story would have many interesting subplots — such as the role of better work-life balance as a determinant of health, workplace productivity and innovation, support for voluntary organizations, and so on. As will be described in Section 5.6, there are even potentially large gains on the fiscal side.

But will there also be losers? Retirement is popular today. Working-age people may well welcome a reallocation such that leisure is more evenly distributed across life. But will older

⁴³The longer-term goal should be neutrality in how people spend their time. However, a concerted effort will likely be needed to offset the cultural and institutional forces that now support early retirement.

people welcome giving up some of that leisure time by working longer? Will leisure in retirement become even more popular tomorrow?

Box 3 reviews international public opinion. It suggests that there is no inherent public opposition to later retirement. Indeed, if introduced sensibly, it would likely be a welcome opportunity for many. However this depends greatly on whether there will be good jobs for older workers. That is why the changes should be introduced at a time of likely labour shortages, when the baby boom generation is retiring in large numbers.

4.4 Towards life-course and asset perspectives

A reformulation of equity/equality and security objectives needs to be an urgent part of the policy response. Major improvement is needed in our existing approaches to supporting those at risk, and to achieving distributional and security goals generally. More attention needs to be paid to supporting social inclusion throughout life or, to use one helpful formulation, to preventing the social exclusion that “occurs whenever the environments where people grow up, live, and work, and the institutions that govern them, arbitrarily limit their opportunity to participate in society” (Hertzman, 2002).

A related theme is the incorporation of a much wider range of assets into social policy thinking. Wealth and assets are one of the four components of economic well-being discussed in Chapter 2. In the macro framework of this same chapter, the prime focus was on the sustainability of stocks of assets — including human capital. At a micro, individual level, assets such as marketable skills, housing, or savings are key determinants of personal economic security.

In this paper, assets are defined broadly to include the full range of resources that are built up to be used for subsequent benefit — information resources, housing, skills assets, informal support networks, and professional and community supports, as well as financial assets.

Today the main goal of the income security system is equality and security at a point in time

Equality and security today are mainly defined in terms of income at point in time. Income security programs today are intended to bring people who have no, or very low, market income (during some predetermined short period of time — typically a month or a year) up to some minimum level. They protect against joblessness, whether as a result of short-term unemployment, chronic disability, going to school, or being retired. In addition, they are intended to redistribute income at a point in time — to narrow the gap between rich and poor people, and between rich and poor regions.

Today income security policies are, as the name suggests, mainly about income, with assets playing only a minor role. Skills acquisition and labour market integration policies are, on the other hand, directed towards increasing one kind of asset — human capital in the form of marketable skills.

Box 4: Public Opinion on Retiring Later

International public opinion on framing a policy agenda around later work-retirement transitions has recently been examined in some depth (OECD, 2001). The study includes data for Canada. Survey findings initially appear to be contradictory, depending greatly on the specific wording of questions:

- Many people report that they would like to work later in life, but few actually do. (Older Canadians in particular supported the concept of gradual retirement by indicating greater preference for part-time work than was the case in other countries. In most countries there is a greater preference for full-time work.)
- People tell pollsters that they would not like to be forced to work longer by increases in the age of entitlement to public pensions but, in reality, increases in mandatory pension ages have been introduced in several countries with surprisingly little public opposition.

The seemingly contradictory findings are a result of a perceived lack of suitable work. Most people would like to retire later, but only from a job they liked. And most believe that they would have difficulty finding such jobs. Retirement is, for most, an enjoyable alternative — at least in the early years of retirement. Running out of things to do, and consequent dissatisfaction with life, comes only later and then it is usually too late to rejoin the labour force.

The OECD noted that the perception of a lack of desirable jobs for older workers made perfect sense given the high unemployment in the 1990s when the surveys were taken. Views are likely to change greatly during the medium-term time frame discussed here — a period where a much higher demand for the skills of older workers seems to be likely.

No evidence was found of any inherent opposition to later and gradual retirement as a major policy goal (provided that the needed jobs did actually materialize). In general, people in the baby boom generation are more likely to indicate a desire to work longer — suggesting that support for later and more gradual retirement may grow in the coming years, especially among people in their pre-retirement and early retirement years. Increasingly the issue will be framed as a choice between getting increased labour supply from working longer versus from greatly increased immigration, with the greater win-win potential of the former becoming more evident. Overall, the promise of more life-course flexibility accords well with post-materialist values.

Life-course goals are mainly in the education system. If one looks only at income security policies, the shift from point-in-time to life-course goals seems radical. It is often cast in terms of dichotomies such as safety nets versus trampolines, an enabling society versus an entitlement society, or passive versus active programming. Caution is needed, however. Social inclusion, building skills, and enabling people have always been important social goals, but ones that were addressed by separate systems.

Passive support, with its point-in-time distributional objectives, was indeed mainly provided by the income security system. However, active capacity-building support with a view to preparing people for life in an equitable fashion was not missing; it was simply the underlying objective⁴⁴ of other systems — particularly the public education system and, to a lesser extent, labour market integration policies.

⁴⁴We refer to it as an underlying objective, in contrast to an operational objective. As described in the next section, in the past we only had the capacity to deliver point-in-time programming and, if success was to be measured, we had to have point-in-time goals such as producing graduates with a certified level of educational attainment. But the underlying objectives of public education have always encompassed preparing people for life, helping people live up to their potential, and preventing social exclusion.

Tomorrow, an integrated approach based on life-course inclusion

Tomorrow there will be a focus on “income plus a range of assets over the course of life” within a more integrated social policy envelope that encompasses income security, labour market integration, and skills acquisition policies. That is, a key change over the medium term will be in the extent to which income security, labour market integration, and skills acquisition policies will be used in a joined-up fashion in tackling social exclusion and increasing our competitive strength. We need to create a new social policy envelope that can incorporate both life-course perspectives and a wider range of assets in an integrated way — that can simultaneously encompass both safety nets and trampolines.

Encompassing skills acquisition and labour market integration streams. In the skills acquisition and employment streams of this envelope, the underlying “active” goal would still remain — providing people with the skills, knowledge, aptitudes, and abilities so that they can live up to their potential in society and the economy. However, the approach becomes broadened when

- the formerly separate spheres of early childhood learning, the traditional school system, adult training, and active labour market programming would be seen as part of a more integrated lifelong learning or human resource development strategy;
- the active goal of making a difference in people’s lives would shift from being an unmeasured higher order objective to a measured operational goal. (This will be possible as a result of new capacity for making social investment effective, as discussed in the next section.); and
- the active goal would be re-enforced by an income security system that would provide incentives for active participation in work and learning.

Income security. The income security streams of the new envelope should see a deeper change in their goals. Income security policies, in addition to becoming part of a more coherent package along with employment and learning policies, should themselves directly take on new life-course goals — shifting to trampolines and equitable opportunities. Within this policy stream, there is, therefore, a shift from equality in the present, via redistribution, towards a mixed strategy of inclusion in the present, plus the new goal of supporting equitable opportunities in the future.⁴⁵

The changes amount to a big rebalancing, not a revolution. These changes, particularly in income security programming, would represent a large rebalancing without question, but not the revolution that is sometimes portrayed. For example, trampoline programming has always been one dimension of income security programming, as illustrated by the long history of developmental uses of Employment Insurance. And few would expect that the new welfare state would entirely abandon safety nets.

That is, the shift from equality of outcomes in the present to the pursuit of equitable opportunities for the future is less radical than first appears. Indeed, providing more equitable access to opportunities such as education can be seen as way of reducing income (and other)

⁴⁵This borrows from Jane Jenson’s comparison of social rights citizenship regimes versus social investment citizenship regimes.

inequalities later in life — as with learning policies that focus on raising generic skill levels at the lower end of the skills spectrum.⁴⁶

Conversely, if policies based on opportunities and capacity building were to result in polarization, or even a significant widening of equality of outcomes, there seems little doubt that Canadians would regard them as failures. Dying in the streets is not usually seen as an acceptable result of active programming failures. It is not a question of choosing between safety nets or trampolines,⁴⁷ but of having both — in a new balance with social policy placing heavier weight on the investments in human capital.

Tomorrow assets of various sorts will play a bigger role. An important part of the medium-term policy response will be strengthening the role that a wider range of assets can play in economic well-being policies, including financial, housing, and information assets as well as a continuing focus on skills assets. This new emphasis on assets is a direct reflection of the increased interest in social investment. Human capital assets are the product of social investments. However, the new emphasis has many other roots⁴⁸ as well. It reflects

- a new understanding of the role of savings and financial assets in economic well-being — both in the measurement of well-being and as a strategy for improving well-being among those who are poorer. A growing literature is suggesting that holding financial assets can be a positive welfare tool, affecting individual behaviour in positive ways and resulting in a range of improved labour market as well as broader social and economic outcomes.⁴⁹ There are many proposals to create individual learning accounts, development accounts, retirement or housing savings accounts, or to provide an endowment to all children or all school graduates in order to help equalize opportunities in making life choices;
- a growing understanding of the importance of housing to economic well-being, including growing problems of homelessness and the housing needs of older people as they become more frail;
- a greater emphasis on sustainable development in many policy domains (passing on a strong inheritance to new generations in the form of stocks of assets of various kinds);
- the growing interest in *social capital* that is described in the Appendix;

⁴⁶Some would go further and argue that a policy that attempts to equalize incomes is, in turn, a way of achieving greater equality of opportunity and of fostering high levels of capacity building in the long term. This argument, however, can be overstated. It tends to assume that the children of poor parents are significantly scarred in their subsequent development. Unquestionably some are but, as described earlier, current research shows that this may be less a problem in Canada than in many other countries. There is a relatively weak linkage in Canada between the income status of parents and their adult children among those at bottom of the income scale.

⁴⁷The change is more likely to involve two levels of income support — a higher level that is a kind of “wage” for those who are engaged in playing the trampoline game, but still some form of minimal safety net for those who do not, or cannot, play. However, in reality, this is not much different from what we now have in Canada, particularly as social assistance has become less generous over the 1990s. A conscious shift to a two-tiered model has been discussed many times in recent decades in Canada. Indeed, it has been a central theme of most major reviews and royal commissions.

⁴⁸Indeed, there is a risk that the language of savings, assets, resources, capital, and investment has spread so widely that its contents could become diluted — that it might become a concept that can mean anything. In some applications involving skills, for example, it is not always clear whether the asset in question is the financial asset that funds the acquisition of a skill — or the skill itself, which is then “invested” or used to get some further return. In other cases (including many “investments in skills”), the term “investment” has come to be only a synonym for “a good expenditure,” since the size of the investment is unrelated to any specific calculation of expected returns.

⁴⁹See discussion of these in Bynner and Paxton (2001). However, the extent of many of these positive effects has yet to be demonstrated through rigorous evaluation.

- an emphasis on individual choice and mutual obligations means that individuals are expected to use the full range of resources (“assets”) available to them in making life decisions and on the consequent role of policy in re-enforcing appropriate use of those assets;
- similarly, flexibility and mobility in the workforce — and in the mix of leisure, work, caregiving, and learning over the course of life — puts emphasis on the resources needed to support people during periods when they may not be engaged in paid work. Here assets are a device to smooth income flows over life and to open life choices; and
- the realization that many resources that exist now — in families, through voluntary bodies or services provided by all orders of government in different areas such as health or recreation — could be more useful if they were exploited in a more integrated way. This applies to policies directed to individuals, and also to community economic development. In this usage, “assets” tends to encompass the accumulated stock of expertise, wisdom, innovativeness, etc.

What needs to be done

1. Get the language right. Two kinds of action would be useful in translating this very general discussion of changing goals and objectives into something practical that could help policy-makers in the medium term.

One task would be to clarify the vocabulary used in describing the distributional and security goals for the combined policies under review here: encompassing education, training, labour market integration, and income security. Even in any one of these streams, there is much confusion about language, particularly as one shifts to life-course perspectives.⁵⁰ For example, it is usually more useful to think in terms of policies that fight exclusion rather than promote inclusion, but these concepts are often used interchangeably (including in this paper), as are the concepts of social inclusion and social cohesion. Some definitions of social cohesion have become so broad, for example, that the term is used as a synonym for “that which is good on any fashionable social criteria.” As another example, the concepts of universal versus targeted programming, which made sense in one policy stream, become ambiguous when applied to other streams.⁵¹

The lack of consistent language is perhaps not a big problem in general discussions of future directions. However, precision becomes important in the actual design of policies and in the way in which their success is measured.

⁵⁰Jackson and Scott (2002) have a particularly helpful discussion of the implications of shifting to the concept of social inclusion as it relates to human development and the life-course, including the concept of social distance as a broader replacement for the traditional language of income inequality.

⁵¹For example, what do the value-laden terms “universal” and “targeted” programming actually mean in the various policy streams that are becoming integrated? To illustrate, there are those who support universal income transfers where everyone gets the same benefit, but who would oppose equal provision of (negative) benefits through the tax system (preferring progressive taxes geared to income) and who would also oppose universal provision of services if that meant that everyone got the same service or services of equal dollar value (preferring instead to tailor services around need and individual circumstance). If the progressive income tax system is thought to be universal because it includes everyone, then does a shift from an income-tested transfer to an otherwise similar refundable tax credit constitute a shift from a targeted to a universal benefit? These are not substantive issues, but examples of confusions that arise out of the use of language that made sense in one policy sphere when it is transferred to another policy sphere.

2. Undertake a series of strategic studies. The other, larger, task would be a practical examination of the potentially major effects of these new life-course, social investment, and asset-based perspectives. Three such studies may be needed including a strategic study on new approaches to fighting social exclusion among different categories of vulnerable people.

It would be useful to carefully re-examine our approaches to social inclusion in light of new perspectives:

- What would be the practical consequences of shifting to life-course perspectives and moving away from short-term point-in-time concepts of income adequacy — in terms of eligibility criteria, the balance between prevention and remedial interventions and in terms of people who would be included or excluded as result of the shift?
- What would be the consequences if we tried to reach the people facing persistent disadvantage and exclusion via their increasing concentration in the five at-risk groups?
- What would be the consequences of targeting what they have in common — such as a lack of assets including skills, access to social capital, financial assets, appropriate housing, or vulnerabilities that arose in childhood?
- What are the consequences for at-risk groups of the evolution of the normative values that are entrenched in human rights legislation, charters, and international agreements? Are emerging life-course, asset-based, and social inclusion concepts consistent with these entrenched rights?
- What would be the result of centring on the caregiving process itself, consistent with the new emphasis on life-course flexibility in the use of time, including time for caregiving? This could include the role of supportive families and parenting skills as they relate to preventing vulnerability among children, as well as caregiving, in and outside of the family, associated with people with disabilities and elder care.
- What would be the consequences of focusing on people at greatest risk (the homeless, those with severe disabilities) and on emerging areas of growing risk (likely manifest in the form of marginal lifetime labour market attachments) including both remedial and preventative approaches?

These are difficult topics that are not well supported by research. What is needed is a strategic overview that uses a consistent vocabulary to explore the general strengths and weakness of possible new approaches to achieving distributional and security goals. The final chapter outlines the possible content of such a strategic think piece.

A parallel study could explore the potentially large consequences of taking assets into account in social policy. Housing assets provide a focus for a broad examination of homelessness, affordable housing, independent living, and the role of living arrangements in promoting equality and security. In terms of financial assets, other countries have explored interesting innovations such as mandatory retirement savings accounts, or trust funds set up for people at birth or after school graduation (as discussed further in the next section). The more detailed discussion of Chapter 6 suggests that information resources are among the most interesting asset to be examined. There has been much discussion of the importance of information in prevention, but few in-depth examinations of the potentially very large effects on social cohesion and competitiveness of having information as a separate business line of government. The study could also examine the role of social capital, civic spaces, and the like.

Beyond a general study of the role of assets, it would be of considerable interest to explore some innovative proposals for a new category of asset-based policy instruments and how they are applied in a life-course perspective. These are referred to as lifetime accounts. Box 5 gives examples of the characteristics of such accounts and why they are of potential interest. They are a potential alternative to many of today's income security, income redistribution, and social insurance policies. (A basic, guaranteed annual income has long been seen by many Canadians as the ultimate goal of point-in-time income policies. Some combination of a traditional basic income guarantee and a compatible set of lifetime account arrangements might well play a comparable role in shaping the directions of social policy in the 21st century.)

The contents of Box 5 suggests that, corresponding to today's (income-based, point-in-time) policies, there exists a parallel universe of lifetime accounts based on the principle of "income-plus-assets over the course of life."

The argument here is not that lifetime accounts are necessarily the wave of the future⁵² — and certainly not of the immediate future. As is explained in the more detailed description in the final chapter, much development work, and long transition periods, would be needed before they could be introduced on a large scale. They have, nevertheless, great potential appeal in that the design directly supports the new policy directions:

- They are individually-based and follow people over at least part of the course of their lives — consistent with life-course perspectives.
- They take assets as well as income into account.
- They are designed as tools of social investment and allow a wide range of policy choice as to the balance between collective investments and investments by individuals themselves and their families.

What is needed now is a strategic document that sorts out the main proposals from a Canadian perspective, that shows how they could address key issues and that indicates how they might be gradually introduced. Once again, Chapter 6 describes the proposed work in a more systematic fashion.

Win-win potential

As noted in section 4.2, win-win responses can sometimes be the result when issues are addressed at a higher order of generality. A shift from a heavy emphasis on equality and security at a particular point in time to a life-course approach to social inclusion represents a move to a higher order objective. For example, many low-income people frequently move across low-income thresholds. Moving to a life-course perspective, rather than looking at each episode of low income separately (or at each discrete spell of unemployment), seems to be an important step forward. Equally, taking account of the full range of assets that support people, allows a discussion of using those resources in new ways.

⁵²In some of the literature, there appears to be a temptation to advocate lifetime accounts simply because they are possible and elegant — not because they address the most pressing problems of the day. They do not provide solutions to all problems. For example, many of the problems surrounding the provision of remedial services, particularly those with very large financial consequences for the individual or family as with long-term care or health, would be no easier to address with lifetime accounts than with many current instruments.

Box 5: What Are Lifetime Accounts?

Why the new interest in lifetime accounts?

Social policies in Canada have proved wonderfully adaptable and have evolved greatly over the years. However, they are about point-in-time income security and spending on skills acquisition. At a certain point, it may not be possible to stretch these existing policy structures to encompass the fundamentally different life-course, investment, and asset-based approaches without causing serious distortions. It is possible that new approaches will ultimately require quite different policy designs.

There are sets of newly emerging policy instruments that are attuned to the new social investment, asset-based life-course perspectives. We refer here to these as lifetime accounts. RRSPs are the main example in Canada at present, many examples and quite innovative proposals are being considered in different countries.

Examples of lifetime accounts

Lifetime accounts encompass a group of policies whereby funds are put aside in an individual's account in order to fund future benefits such as financing

- retirement, as with RRSPs — with extensions to support other forms of asset-building such as buying a first house, or learning;
- post-secondary education, including schemes that work in reverse where people pay later for an earlier benefit such as income contingent repayment student loans;
- other forms of learning for individuals or their children, through educational savings accounts and various form of learning accounts;
- spells of unemployment as with proposals to replace the insurance aspects of employment or unemployment insurance schemes with an individual account. These could also have reverse features that involved a loan from the account that would be subsequently repaid in cases where an unemployment spell came early in a career when the account balance was not high enough to cover the expense;
- labour market integration as with American developmental accounts or *learn\$ave* in Canada; and
- a range of other socially desirable activities — supplementing earnings from temporarily low-paying jobs, purchase of home, time off to raise children, etc.

Complementary or substitute accounts could be built around time rather than money. Sabbatical leave is an example.

A parallel universe — multiple designs

One can think of a parallel universe of policies. They mirror the income security and social insurance policies that exist today, covering about the same range of topics. (They are less suited to remedial interventions or those where problems are confined to relatively small sub-groups of the population.) They have an equally wide range of design possibilities. The difference is that today the policy focus is on points-in-time and on earnings from jobs. Tomorrow, policy will focus on the life-course and on income plus assets.

Here are some of the design possibilities:

- In some models, only a limited range of authorized uses of the funds is possible. In other models, the list of uses is long and the individual has wide — or complete — discretion in choosing among them.
- In some models, the individual or the individual's family are the main or only contributor. In other cases, there is a collective contribution from the government.
- The government's contribution can be universal, or "progressively universal" (as in the UK proposal for a child trust fund, where every child would be provided with an endowment, with the size of the endowment linked to family income), or geared to paying contributions during periods of parental leave, unemployment, volunteer service, etc.
- The collective contribution can be in the form of transfers and tax concessions or a mix.

The most disadvantaged. There are no easy solutions in supporting the most at-risk groups in the population. However, the new life-course emphasis on persistent disadvantage across the course of life may at least open some pathways to effective policies. As well, those who are most at risk face a complex set of multiple disadvantages; taking account of the full range of assets or resources can only help in formulating responses. Certainly, today's standard of success is not high and should not be hard to beat. Many members of these groups feel that their position has, in fact, deteriorated over the past decade.

Gender equality and fertility. A life-course approach also promotes a productive examination of policies related to gender equality and fertility. There have been very large gains in gender equality in learning, employment, and earnings in recent decades. While there is more to do on the employment and earnings fronts, attention is increasingly shifting to gender equality in the time allocated to work in the market and in the home, particularly in child care and elder care. These issues can be best addressed in a policy framework that focuses on life-course time allocation.

Fertility. In many countries, low or below-replacement fertility levels are a matter of policy concern. A potentially shrinking population, with an older age structure, is often seen as a problem for national security, immigration, and competitive position. The concerns are sharpest in those countries, such as Japan, where population aging is perhaps a decade or so more advanced than in Canada. In Europe, the issue sometimes arises in the context of the size of the future working population that will be needed to support future pensions. Issues related to low fertility are not currently high on the Canadian political agenda, but this could change over the medium term as aging pressures begin to be felt more sharply.⁵³

While the determinants of fertility are not well understood, existing evidence suggests that policy can have its greatest effect not through direct financial incentives to have larger families, but by promoting flexible life-course arrangements — particularly for allowing a good balance between work and child care. In other words, the new life-course approaches to policy could provide the right framework for addressing fertility issues when they do enter the Canadian policy agenda.

Lifetime accounts. It is for the reasons suggested above that lifetime account designs hold great potential for win-win solutions. Individual choice is widened. There is about the same potential for redistribution as under existing arrangements, but targeting can be much tighter if that is so desired. And, the possibilities of negative, unintended effects — such as work disincentives (including incentives to retire too early) and poverty traps — would be much easier to avoid. It is claimed, although not yet been fully demonstrated, that savings and asset-ownership can encourage positive labour market and learning behaviour and a range of other socially desirable outcomes.

The potential gains for social inclusion are great since the designs have the potential for simultaneously addressing two dimensions of inclusion — point-in-time comparisons (the distance among people in terms, for example, of their skills or financial assets as well more traditional measures of income inequality) and inclusion over the course of life. In practice, however, the gains would depend greatly on particular designs. Some designs are highly redistributive; others are regressive.

⁵³However, some fertility issues may never arise in Canada. For example, the work-retirement balance — as opposed to fertility — is the real solution to pension finance.

At the macro level, savings and investment would likely increase and there would be, to the extent that these arrangements receive tax concessions, a resulting shift in the burden of taxation away from savings and towards current consumption. These features are generally regarded as positive but, again, the actual extent of the effects would depend on the specific designs chosen.

It is unlikely that one could move towards lifetime accounts quickly. There are many design and transitional challenges that would have to be overcome. Nor would lifetime accounts entirely replace point-in-time policies; indeed there would appear to be much theoretical attraction in a system that combined the virtues of lifetime accounts with basic income support. Since the new arrangements would represent a significant departure from traditional approaches to risk-sharing, there would inevitably be winners and losers during the transition period. The strategic document that is proposed should address ways of finding win-win solutions in the transition period as well as in mature systems.

4.5 Towards a capacity for making social investments effective

Today social investment is an aspiration, not an operational principle

There is no point in designing policies that we do not know how to implement or whose effects we cannot measure. Yet, there is a real risk of this happening in many OECD countries, including Canada, as a result of the shift of rhetoric towards life-course and social investment themes. This is especially true of policies directed to skills, lifelong learning, and labour market integration.

We are increasingly promising policies that have the goal of social investment (getting payoffs in the future) but, for the most part, we only have the capacity to deliver policies based on expenditures (getting payoffs in the present).

For example, we know how to deliver services and income supports that are assessed in terms of immediate or short-term effects. Through transfers, we know how to provide income supports to individuals that can bring them above a low-income line. Through direct delivery, or through grants and contributions, we can provide educational or training facilities that can bring people up to a specified skill level or to shift them from welfare to work.

We do not yet know how to deliver services and income supports that are assessed in terms of their expected subsequent effects on the lives of recipients — on whether interventions will help people avoid persistent poverty or disadvantage over the subsequent course of life. In the training example, we do not even collect data on how the skills acquired will be used, and rewarded, subsequently in the labour market and later life. We speak of social investment — of investing in skills or human capital. However, the use of the term “investment” is an analogy. There is currently no practical way to gear specific social investments to specific calculations of expected returns on those investments. The lack of capacity to measure outcomes has not stopped us from introducing life-course policies — usually ones where the expected effects of the policies were expected to take place quite soon after the policy intervention. For example, Active Labour Market policies are intended to make an improvement in the subsequent employability of clients, mainly in the immediate years that follow the intervention. But, as will be shown later, even with these shorter time frames, measurement has been poor and the policies have had only limited success.

Tomorrow, social investment goals supported by social investment programming

Recent changes in information and communications technologies have been profound. We now have, for the first time, the technology needed to develop effective life-course, social investment policies.

What needs to be done

Chapter 6 discusses specific tasks that could be undertaken to translate this potential into reality. In summary, needed work falls into three categories.

One is data collection that relates to how skills are acquired, used, and rewarded. This is a huge gap at present. Canada has played a leadership role in many of the needed areas of data development. However, the result today is still a patchwork of bits and pieces that will need a push, likely a big push, before large payoffs are possible.

Second is a stronger capacity to experiment with new kinds of interventions, particularly to see what kinds of interventions work best for those in the most at-risk groups.

Third, and the main topic of this section, is the development of the technical capacity to calculate the expected subsequent outcomes from specific investments in skills and learning. The current wave of technology means that an astonishingly large amount of data can be applied to individual cases in real time and simultaneously across the country (or the world for that matter). This data can be used to predict the expected outcome of various types of intervention and to build in feedback mechanisms that allow these predictions to become more accurate. The calculations can be made in ways that avoid the privacy problems that potentially existed under former technologies.

The technology in question already exists and is used in many applications, particularly by large international companies. In the area of income security and skills acquisition policies, some prototype applications already exist and full-scale operational models are certainly feasible in the 5- to 10-year time horizon discussed in this paper. Box 6 illustrates the points made above by describing a prototype design in the area of active labour market programming. This is an area where Canada took a lead in development and still has many comparative advantages. It illustrates most of the design features above.

Win-win potential

The implications for policy design are radical, with multiple win-win possibilities:

- The expected future consequences of interventions taken today can be measured and used in the delivery of current programming. This means that life-course perspectives (such as investing in human capital) can be reflected in actual, measurable policies. The expected returns from investment alternatives can be quantified, and the accuracy of that quantification improves over time based on experience.
- Policy interventions can focus on, and follow the progress of, specific individuals. This increases effectiveness by tailoring interventions to the needs of the individual and is particularly important in measuring subsequent changes over life. People can be referred to those interventions that, based on past experience, are most likely to work best.

- Policies can become more preventive in character — providing information that individuals can use themselves to make their own choices.
- Organizations that pursue similar objectives will be more able to harmonize their activities. Organizational location becomes less important. This topic is pursued further in Section 4.6 on horizontal integration. (The same information — at the same level of detail and at exactly the same time — can become available to the individual client, to the service provider, to top management, and even to critics.)

Why has such a central reform received so little attention?

The reader may be sceptical. The potential benefits of developing this capacity may seem suspiciously high in relation to the development costs involved. Why has so relatively little development work been undertaken worldwide? There are several explanations:

- The big factor is simply the newness of the computing capacity. The prototype described in Box 6b would not have been technically feasible even a decade ago. It is hard to see the effects of new technology before it is introduced — and the prototype described in this box is not widely known.
- A second factor is that the needed development work, while modest compared with expected payoffs, nevertheless involves costs and lead times that are large when compared with most investments in capacity building in the social policy area. It will require a significant research and development effort to design the needed computing and statistical infrastructure. Perhaps new organizations will need to be set up to undertake that work. It will be some years before significant payoffs are realized.
- Further, funding and managing the developmental work does not match the existing mandates of policy agencies in most countries. (Canada has moved further than most in adopting life-course perspectives to policy and it is not surprising that early development work took place here. As well, a federal structure with national funding but provincial or state delivery is helpful in the shift towards social investment directions. In this context, note that the United States has also taken the lead in many areas of capacity building, especially around welfare-to-work transitions and rigorous evaluation. This topic is further pursued below, under horizontal integration.)
- Privacy has been a concern in the past, given the detailed longitudinal data that are involved in the systems design. There is a potential risk in some designs — perhaps including those that were used in early development work in this area. Caution made sense. However, there are no inherent privacy difficulties; concerns can be solved in several ways as discussed in Chapter 6.

While the technological capacity is new, Box 7 suggests that we should not expect a long lag before the new capacity is introduced into operational programming — possibly in other countries, if Canada fails to build on its considerable lead in this area. Policy changes are likely to be introduced soon after the enabling technology has been introduced.

4.6 Towards accountability: A data-based marriage of decentralization and horizontal integration

Policies will be able to adjust to an uncertain future if they are focused on high-level, basic goals such as the health and skills of the population and if the policy architecture is flexible. This section deals with architecture.

Having a flexible set of policy instruments means that, taken together, the various policy instruments work harmoniously together, both in terms of adapting quickly to changing circumstances at the level of society and in terms of working effectively in combination to meet the needs of the individual being served.

Today Canada is strong on both horizontal and vertical dimensions

A good past record on vertical integration. A system that has good vertical integration is one where there is sustainable balance between decentralizing and centralizing forces. It is a system where service provision is near the client — ideally tailored to a client's special needs.⁵⁴ But it is also a system that supports clear central responsibilities for such things as financing, eligibility criteria and, of course, achieving system-wide results. Canada has had a good record, compared with many other countries, in finding such a reasonable balance.

At the federal level, most services have been delivered by HRDC through a network that includes a strong local delivery capacity, including contracting out of active labour market interventions at the level of local labour markets. Today the system is in transition with the transfer of some functions to the provinces; the implications are discussed below.

Much progress on horizontal integration. Recent Canadian social policy history has been marked by a remarkable strengthening of horizontal integration at the federal level — bringing various programming streams together to allow harmonized action, as illustrated in Box 8. There have been parallel, and sometimes equally dramatic, trends at the provincial level.

The process of horizontal integration described in the box often seemed slow and painful to insiders. And it is far from complete. Some of the integration extended only to matters of planning, while others extended to local and regional budgeting decisions. And the links among the education, active labour market, rehabilitation, and social services remain weak. Nevertheless, horizontal integration has been swift by world standards. Other OECD countries have been moving in similar directions, but few have moved as quickly or as far as Canada.

The key to past success has been a harmonized approach to vertical and horizontal integration. Progress had been possible because the systems were in place that allowed horizontal and vertical integration to proceed, more or less, in harmony. The horizontal integration in the 1980s of the unemployment insurance, labour market integration, and labour exchange functions, which was referred to in Box 8, took place simultaneously at national, regional, and local levels. New policy designs encouraged more holistic interventions and gave

⁵⁴Decentralization discussions are mainly about service provision. When thinking about information as a product of government (as opposed to services), decentralization has gone much further — making information available in people's homes via the Internet (for those with access to the Internet). Even in income security policies, the shift away from universal income transfers to targeted benefits based on current income can be thought of as tailoring policy more closely to the needs of individual citizens, although this form of vertical integration is, of course, quite different from decentralization in the normal geographical sense of the word.

Box 6: Active Labour Market Policies in the Past Evolving Into Life Transitions Support Policies in the Future

What are active labour market policies?

Active labour market policies are interventions that help people find work. There are many variations. Sometimes they are targeted at particular groups such as single mothers making the transition from welfare to work. Sometimes they are targeted at Employment Insurance recipients. The precise objectives vary — but typically involve helping individuals find a job, stay employed on an ongoing basis, increase their hours at work, increase their earnings, and reduce reliance on income security transfers.

There are many means of delivery. A typical approach involves the provision of funds to a local office of the employment agency that then contracts out a series of projects for different groups of clients. The clients are typically chosen as the result of a screening process designed to assess their needs. Often the contractor is a non-profit group that puts together a mix of program interventions. Another approach involves providing a subsidy to a private sector employer for on-the-job training.

In many OECD countries recent trends have been to make participation mandatory for long-term unemployed people. These are often major interventions, lasting some months or longer. On the other hand, those people jobless in the shorter-term may be placed on a discretionary, voluntary basis — increasingly in less costly (and often quite effective) interventions such as learning job-search techniques.

Systems learning has been rudimentary

Currently, most systems for planning and accountability are rudimentary:

- Records are kept of expenditures, number of clients at different stages of the process, a general indication of the type of intervention used, etc.
- Often data is collected from participants asking about their success in finding work at a number of points subsequent to the intervention, typically several months after, a year after, and sometimes several years after.
- In a number of countries, including Canada, much more sophisticated evaluations and experiments are also conducted involving comparison groups and, especially in the case of experiments, more rigorous random assignment methods.

Apart from the evaluations and experiments, the information gathered is typically not of great use for improving the operation of the program. The records about processes typically do not capture consistent information on the specific skills that were taught and the skills that were actually acquired. Nor do the follow-up surveys typically indicate how the acquired skills were actually used.

In addition, the follow-up data — especially from a year or so later, comes too late to be used in the ongoing planning and accountability systems of the employment department or other agencies of which the Active Labour Market administration is only one small part. As well, these data rarely contain information about outcomes (what difference the interventions made) since they rarely use control groups.

The evaluation/experimental data, which does show outcomes, is more useful and is often one of the drivers of periodic overhauls of the programs. However, their utility is weakened by a long time lag. The data are often not available for several years after the interventions in question, and program designs have often been changed in the intervening years — or the economic situation has changed. As well, evaluations often fail to take account of the fact that the intervention in question is typically part of a succession of factors that influence behaviour, including taxes and transfers and the interventions of other actors.

Results have been positive, but only slightly

In the past, active labour market policies have had only small (but usually positive) effects, doing good for some groups and not making much difference for others. Typically, the intervention will help some 55 per cent or 60 per cent of the participants, according to some measures of success. A large minority will typically do worse than the control or comparison group. Systems are not in place to distinguish the causes of success and failure and this, together with the time lags, means that there can be no systematic approach to learning from experience.

Sharing experiences and lessons with other actors is even more difficult since information on key variables (type of intervention, the skills of clients, the measures of success) is typically not comparable. There is no common classification system underlying these data.

(continued)

Box 6: Active Labour Market Policies in the Past Evolving Into Life Transitions Support Policies in the Future (Cont'd)

The evolution of active labour market policies

The policies were so named to distinguish them from “passive” income support. They originally included referrals to classroom training and placing people on make-work projects. However, early evaluations showed that such programming did not result in any continuing labour market benefits. By the 1980s the goal was no longer a referral to some intermediate intervention, but rather a managed transition into the real labour market.

Knowing what transitions would likely work best for whom was a key design problem. The solution was to capture the results of past evaluations and experiences through the eligibility criteria used in selecting participants and, increasingly, in more sophisticated “profiling” — that is, early assessment of the characteristics of potential participants.

In consequence, the more recent waves of active labour market policies were more successful than their predecessors in supporting successful labour market transitions — but not by much. Seemingly arbitrary eligibility criteria were a crude and unpopular instrument. Profiling, while a step forward, was not well-grounded on current evidence of what was working.

A prototype of radically improved design

In response to these weaknesses, HRDC made dramatic progress over the 1990s in using computing power that had just become available to undertake a radical leap forward in design. They developed and tested a prototype that involved the construction of a database containing the history of thousands of individuals. Based on administrative records going back for many years, it provided employment and earnings histories, information on receipt of transfers, past participation in employability interventions, local labour market conditions, and so on.

From that historical database it was possible to calculate the expected success ratios (defined in different ways) that resulted when individuals participated in different types of active intervention in different labour market circumstances.

Supporting individual participants

These calculations could be made in real time, meaning that the information about expected probabilities of success could be provided for individual clients who came into an employment office.

Within an overall system that learns from experience

Information about the client — including the intervention chosen and subsequent success — would also provide system-wide intelligence. Over time, the ability of the system to anticipate successful outcomes would improve, as it learned from past success.

Even in the early rounds of the prototype, the evaluative information about outcomes was as good as that obtained from traditional comparison group evaluations. And it was available in real time — not years later.

Future development

When development work ended in the late 1990s, the prototype was incomplete, although still sufficiently operational to be used in pilot settings. Future steps in development would involve

- basing the analytic calculations on data that have been made anonymous by a third party — and thereby eliminating issues of privacy;
- including detailed information about the content of interventions, the skills participants acquired in interventions, and the skills they subsequently used. This would involve research and development whose implications and benefits would go well beyond active labour market policy. Active labour market policies could, however, be a catalyst in getting the work done;
- providing individuals with access to the system over the Internet so that they could take action themselves where this would make sense; and
- extending the capacity to produce systems-wide measures of effectiveness that could be based on criteria specified by individual policy users.

And eventual evolution into a central tool for new social investment policy directions

The tool provides a practical model of a new generation of policy designs that are centred on the measurable outcomes of transitions from one life-course stage to another — as opposed to existing designs that are designed to produce results and to measure outcomes at a point in time. Similar techniques could be developed to assess the effectiveness of other kinds of investment in learning and education, provided that the needed data were available.

Box 7: Historically, Policy Changes Have Been Introduced Soon After the Enabling Technology Became Available

There is a lag before technological advances are translated into policy designs — but it is not long.

To illustrate, in recent decades Canada has moved towards a targeted, non-intrusive negative income tax (i.e. guaranteed annual income) through the use of refundable tax credits, ceilings on transfers, de-indexation, claw-backs and, in the case of seniors and children, no need for intrusive needs-testing.

The capacity to implement such targeted programs was simply not there until about the last 30 or so years.

In the 1950s we had the technical capacity to successfully deliver an unemployment insurance system that required stamps to be placed in booklets, to have a welfare system that required social workers to visit social assistance applicants (making it easier to see their asset situation than their income situation) and to deliver universal benefits where every one received the same amount of money.

The capacity to quickly deliver income-related benefits that were both targeted and non-intrusive came only later as computers were introduced on a large scale and it became technically possible to use the tax system as a delivery vehicle.

The technology provided an opportunity; it did not dictate policy. In the example, other countries also had had the technical capacity to move towards guaranteed income approaches, but not all did so.⁵⁵ Rather, the current state of technological capacity simply means that some desirable things that a country wishes to accomplish can be included in practical policy agendas, while others cannot.

Today most countries would like to move towards social investment, life-course perspectives. Therefore, most will be eager to make use of the new technology once it becomes better known, but few are as well situated to do so as Canada.

local staff more authority to put together packages that made sense in their localities. At the same time, there was a tightening of central eligibility criteria for receipt of benefit and the devotion of resources to the costly central functions of monitoring, evaluation, developing information resources, and capacity building. These placed decentralized decision-making within an overall system that re-enforced centralized ministerial accountability for program results. This complex balance was held together primarily through a planning and accountability regime that centred on a quite sophisticated system of matrix management within the department.

A network involving social partners and, to a lesser extent, civil society was also developed during the same time period to support decision-making at all levels within HRDC and its predecessors — national, regional, and local. However, linkages with the outside world never reached maturity. Indeed, it may be that very source of historic success in internal integration — a strong planning and accountability regime within the department — may have worked to prevent strong external ties.

The movement towards integrated horizontal and vertical integration was perhaps most ambitious during the 1970s and, especially, the 1980s. During the 1990s, other concerns as shown in Box 8 began to dominate the agenda, and it became increasingly evident that there were weaknesses in external dealings with provinces, with social partners, and with civil society. Tomorrow, the challenge will be to harmonize vertical and horizontal integration across jurisdictions.

⁵⁵The policy literature (see Myles & Pierson, 1997) has done a good job of examining the coalitions of political interest that allowed these changes to occur in Canada but not in other countries such as the United States. As well, the literature has explored the values underlying these changes and their interaction with economic and constitutional issues. The policy literature has, however, not done as good a job in explaining the fundamental enabling role of technology in the policy process.

The next phase will be to address the reality of key federal and provincial roles in the area of economic well-being policies. The first steps have already been taken with the new labour force agreements with the provinces.

Box 8: Horizontal Integration at the Federal Level

Fragmentation in the 1960s and 1970s

In the 1960s and early 1970s, when the general architecture of today's policies was put in place, federal responsibilities for labour market and skills policies were with different ministries and agencies. At that time, there was little effective integration — or even ongoing communication — among federal agencies responsible for the policies under discussion in this paper. Agencies operated mainly in isolation, including those with responsibilities for education and training (post-secondary finance transfers, student aid, and purchase of community college seats); for the employment centres and the labour exchange; for the administration of unemployment insurance; for federal financial support of provincial social assistance; for workplace regulation; for disability pensions for people of working age; and for active labour market programming.

Consolidation in more recent decades

More recent decades were marked by a series of steps towards greater horizontal integration. Traditional unemployment insurance, labour market, and employment policies were integrated during the 1980s.

At the delivery level, one-size-fits-all employment measures such as referrals to pre-purchased training seats were — slowly and irregularly — replaced by more case-managed, holistic interventions.

One-stop service centres were established, usually in a pilot mode. These provided integrated local labour market and training information from many separate agencies both federal and provincial. Increasingly during the 1980s, active labour market interventions were provided to social assistance recipients, if often using awkward methods of federal and provincial coordination.

The creation of HRDC

With the creation of Human Resources Development Canada in 1993, a major step was taken to enable horizontal integration around life-course concepts. The new department had the mandate to deal with policies affecting central transitions in life — school to work, work to parenting, and work to retirement, as well as income support for seniors and children, and for federal workplace regulation.

The full benefits of this broader mandate are still to be felt. Perhaps paradoxically, in the period after this even broader capacity was created, priorities shifted to new concerns arising from federal-provincial relations and budgetary restraint in the traditional labour market integration area — replacing the priority that had been formerly directed to vertical and horizontal integration within the department.

Harmonization of federal and provincial efforts offers great potential for important further horizontal integration involving, for example, possible stronger linkage between education and training, labour market integration and health and social services, etc. There may also be potential for greater vertical integration — not through geographic decentralization (since both federal and provincial systems are already reasonably decentralized) but by being able to get service interventions even more closely tailored to individual needs.

Complexity increases by an order of magnitude. In moving forward towards this greater integration, we face what, on the surface, might appear to be a set of coordination issues so complex as to be immobilizing:

- We want to go much further with horizontal integration, harmonizing action across a wider range of policies. That inevitably brings in new actors and more complexity. (Mainstream policy has, for example, not yet absorbed the lessons coming from the emerging research in the area of service delivery — namely that vulnerable people simply do not fit into the social and health policy boxes that we have created — and that interventions designed to meet one

dysfunction only are almost certain to fail, as the historical record suggests. In the more severe cases where government intervention is needed, people almost invariably belong to more than one of the five at-risk groups discussed earlier or encounter multiple, closely-related, health and social problems. In recent decades, the problem of policy “silos” has been recognized, but the metaphor may well be misleading and ultimately counterproductive as it fails to capture the complexity of patterns of dysfunction that are faced by the most vulnerable people.⁵⁶⁾

- We wish to introduce a social investment, life-course perspective to policy, which further adds complexity. We want policy to make a difference at subsequent stages of life. But almost invariably behaviour is shaped by a series of factors including effects originating in the family and market, as well as many policy areas in many jurisdictions. To understand the effects of my policy, we must also understand the effects of other policies — greatly increasing complexity and the need for coordination.⁵⁷
- And we wish to harmonize the core policies across two (and increasingly three) orders of jurisdiction — a vastly more difficult task than attempting this within a single jurisdiction. The complex planning and accountability regime that allows both horizontal and vertical integration within a single line department has no counterpart in dealings across agencies and certainly across the mandates of different orders of government.⁵⁸

The solution is well understood. Yet, there is wide agreement on the right approach to finding a solution. It is the creation of compatible evidence-based frameworks for planning, coordination, and accountability, with the heavy involvement of citizens (and civil society) in that planning and accountability system. Evidence of what is working best provides the foundation of accountability under this idealized solution, supported by the checks and balances that result from a system that encompasses both providers and users of services and supports.

There is hardly a government in the developed world that is not taking some action to build an evidence-driven system of planning and accountability. For example, along with its statement of basic principles and its call for each order of government to report on its own performance in a transparent manner, the 1999 federal-provincial-territorial agreement, *A Framework to Improve the Social Union for Canadians*, contains the following agreements:

Each government therefore agrees to . . . share information and best practices to support the development of outcome measures, and work with other governments to develop, over time, comparable indicators to measure progress on agreed objectives . . . Use third parties, as

⁵⁶The silo metaphor seems to imply a series of distinct services or benefits provided by different agencies that should be coordinated by the delivery system in such a way that individuals are provided with the best package of those services that are available in their locality. This “coordination of separate services” model is certainly an improvement over the uncoordinated arrangement that still often prevail today. And it does make sense for the majority of potential clients for whom the “coordination” that is needed is simply good, accessible information on the services and benefits that are available and how they can be accessed either in isolation or in combination. However, for the more vulnerable potential clients — the majority of those that need in-person services, it is best seen as a step along a path (perhaps a necessary step) to a more integrated model, where the interventions are more directly tailored to individual needs, and not simply selected on a “mix and match” basis from a pre-established tool kit.

⁵⁷This also has a territorial dimension. Canadians are highly mobile geographically. The returns to social investment will often occur in a different space and jurisdiction — a recipe for under-investment unless there are exceptionally strong mechanisms of planning, coordination, and accountability.

⁵⁸Existing tools allow for coordination on particular dimensions — such one-stop shopping for services or pooling of information resources. However, the planning and accountability issues being discussed here touch on fundamental mandates and issues such as ministerial accountability.

appropriate, to assist in assessing progress on social priorities . . . Undertake joint planning to share information on social trends, problems and priorities and to work together to identify priorities for collaborative action . . . including, as appropriate, joint development of objectives and principles, clarification of roles and responsibilities, and flexible implementation to respect diverse needs and circumstances, complement existing measures and avoid duplication.

What needs to be done

The task is to move ahead with the process of developing such a system of evidence-driven consultation, planning, and accountability. The essential feature of such systems is their focus on outcome measurement. Over the long run, organizations can be held accountable only for the things that are measured. Accordingly, government planning and accountability systems are increasingly being designed to monitor higher levels of outputs and outcomes — outcomes that correspond more closely with the true objectives of policy.

Box 9 illustrates the content of a framework for planning, coordination, and accountability that would be consistent with these general trends and that would cover the whole envelope of income security, labour market integration, and skills acquisition policies.

It is seen as a framework that supports a loose coalition of thousands of players in all parts of the country who are interested in a new social policy envelope of economic well-being policies. That envelope would consist of income security, learning, and labour-market integration policies. It would supplement, not replace, existing frameworks and institutions. The glue that would hold the system together would be common statistics, with an emphasis on moving to measuring outcomes and results.

Potentially, this is the right sort of glue. If we agree to common approaches to measuring outcomes and if those measures show how outcomes are related to activities of the various participants in the system, we are a long way down the path to a sophisticated learning system that does not threaten the autonomy of its many constituent parts.

So, what's the problem? In reality, of course, we see only hints of anything like the systems-wide framework set out in Box 9. For one thing, we lack the needed mechanisms to provide coordination across a broad “economic well-being” policy envelope⁵⁹ that encompasses income security, learning (including education and early childhood learning), social services, and labour market integration programming. There are few institutions in Canada that currently have a mandate of that breadth. However, there are arrangements that approach that breadth in the areas of health and education. And the Social Union Framework itself has the potential to evolve in this direction. On the data-gathering side, Statistics Canada has a broad mandate and works closely with many partners in areas such as education. If the only issue were jurisdiction and coordinating mechanisms, some loose version of this framework would seem feasible.

⁵⁹Of course, the issue arises as to whether this is the right scope for the new envelope. It could not be narrower if one were serious about social investment, social inclusion over the course of life and finding major win-win solutions. However, as discussed in Chapter 6, the scope of the envelope might eventually have to become even broader. One could imagine the eventual emergence of two partly-overlapping systems of consultation, planning, and coordination encompassing the entire area of social policy: one focusing on economic well-being and the other on health.

Box 9: Economic Well-Being Policies: The Components of a Systems-Wide Framework for Planning, Coordination, and Accountability

A series of documents

A systems-wide framework would consist of many documents describing economic well-being and the roles of the thousands of actors involved in economic well-being policies. They would be produced by the various actors in the system (or by various groups of actors) acting autonomously, but in consultation with others. Large numbers of these documents already exist in the form of annual performance reports and the like. Some of these would describe the activities of individual actors in the overall income security and skills acquisition system. Others would cover particular geographic areas, or types of intervention or category of client.

For example, some documents might cover educational topics, while others might cover income security. Others might be addressed to specific disadvantaged groups. Others might be roll-ups by municipality or industry sector.

A summary document

There would also be a system-wide summary document that would likely include

- the medium- and longer-term goals and objectives that are being pursued and the principles that are being followed;
- the roles and activities of the various actors, including comparable statistics on the inputs and process of the various actors (e.g. expenditures, number of clients served);
- consistent statistics describing the changing circumstances of the population as it relates to economic well-being and skills acquisition, including outcome measures that show progress in meeting the intended objectives;
- an analysis of the, often complex, linkages between outcomes and their determinants as found in market forces and the activities of the many actors in the system;
- in some cases, performance measures — a small subset of the statistics above that show success in achieving a limited number of previously-agreed goals or targets; and
- analytic material describing common experiences and lessons learned arising from the material.

Lessons and performance results would be cast at the level of the system as a whole, not for specific actors.

A detailed set of statistics

The system would also include a detailed, widely-accessible set of comparable statistics and associated analytic tools — particularly tools that help relate outcomes to their causes. The statistics could come from various sources, but an integrated process or institution would be accountable for their accuracy and comparability, and for providing access.

Subsets of these common statistics would be used in all the documents (along with other data), where they would help ensure that the documents are comparable and that the consultations based on those documents are founded on common empirical evidence.

A process of consultation

The framework would include a process of consultation and dialogue (or, in reality, a number of interrelated processes) for keeping the documents current and consistent, for reviewing performance, sharing of experiences and lessons learned, etc. At the national level, the focus would be on the summary document and how it relates to other high level documents describing key subsystems.

Some institutional arrangements

Formal institutional arrangements (existing or new bodies, committees, etc.) would be needed for

- statistical development to ensure that standards exist in order to produce the comparable statistics above (many no longer exist). Also to ensure the quality of the data and make it accessible;
- preparing the summary document; and
- coordinating the processes of consultation around the summary document.

The key area for new action has already been identified — developing outcomes data.

The real gap is the evidence base to support the coordination system. Outcome measurement⁶⁰ — the ability to measure high level outcomes in a consistent way and to link outcomes to comparable measures of inputs and processes — lies at the heart of successful approaches to managing this complex system. The needed outcome data are, for the most part, the same as the data needed to support effective social investment as discussed in the previous section and as elaborated in Chapter 6.

However, outcome data would be of limited use without consistent data on the inputs and processes of the many policy interventions of the various players in the system. Effectiveness is the result of comparing inputs with outputs and outcomes. Learning what works is the result of comparing the detailed processes that were used. As described in Box 6, such input and process data is rudimentary today in key areas such as labour market integration and skills acquisition programming, with little comparability among the various partners in the data that is collected.

This is *not* a proposal based on common objectives, goals, and indicators. Many proposals for consultative processes that cut across jurisdictional boundaries are based on quite different approaches from the one above — often involving the development of common objectives, goals, and indicators. For example, when the European Union decided to emphasize the fight against poverty and social exclusion, it developed an “open method of consultation” involving an agreement of a common objective for Europe as a whole, developing national action plans to meet those goals, and reporting on progress towards meeting the objectives and on national programs. The process would be supported by a set of social indicators, in this case related to social exclusion. Similar schemes have been proposed in Canada and variants are common within governments as a means of coordination and accountability across ministries.

The proposal here would certainly include reporting on common objectives, goals, and indicators — where they exist. However, the main emphasis would be on descriptive data, particularly outcomes data. As is discussed further in Section 6.5, there are three reasons for this:

- There are not yet good data on outcomes in a system based on life-course inclusion, or on the effectiveness of social investments. Any consultation system that was based on specific empirical goals, targets, and indicators could only reflect lower order goals, or be greatly skewed in the direction of those few areas where the needed data is available. In consequence, it would result in pressures on policies to achieve yesterday’s goals (and yesterday’s suboptimal goals at that), not those of tomorrow.
- The “economic well-being” policy envelope is broad — encompassing a wide range of economic and social goals, not all of which are shared to the same extent by all the players in the system. Any set of comprehensive indicators that would be succinct enough to be interesting to the public would invariably be too succinct to be of much practical use to the participants in the system.

⁶⁰Outcome measures of this sort are *not* performance measures, as usually understood. Performance measures — a set of statistics that show key trends in a handful of previously selected high-level indicators of economic well-being — are often used proxies for outcome measures. However, since at the highest level they cannot be easily linked to the actions of actors in the system, they cannot provide the glue to hold the system together. And they will become increasingly unhelpful as life-course perspectives enter policy — with the very long and indirect linkages between inputs and final outputs that this entails.

- The differences are not as sharp as first appears since any collection of statistics, such as those in summary documents referred to in the table, reflects an implicit framework of what is important. Decisions based on values cannot be avoided in any approach. The statistical route, where the values are implicit, would be more boring (and, with lower visibility, might be harder to sustain over time). The route where policy goals and targets are explicit would be more interesting (more like a beauty contest), but would be more likely to cause jurisdictional conflict and to lead policy in wrong directions.

It is a proposal for a system where high-level indicators are integrated with the supporting statistics. The compromise approach suggested here would rely on neutral statistical information that supports a rich, heterogeneous, evolving system — supported by information on the achievement of selected goals and targets within the system when these do exist.

There would be also be high-level indicators of performance — but these would flow out of the statistics themselves, and not be the result of a separate policy exercise to develop free-standing high-level policy goals. The concept of basic indicators as being rooted in a rich set of descriptive statistics can be thought of as a social counterpart to today’s system of national accounts.

The system of national accounts consists of many thousands of data series that describe many facets of the economy and that, consequently, can support the analysis of many players working at many geographic and sectoral levels. The accounts can also produce high-level composite indicators, such as GDP per capita because the separate data series conform to a common underlying conceptual framework and because much attention is paid to ensuring data comparability. The final chapter discusses a comparable conceptual framework on the social side.

Win-win potential

Some see the challenge primarily in terms of damage control — finding a system that will ensure that the new agreements with the provinces will not result in a deterioration in horizontal integration, and of finding ways to ensure that the costly central functions of data development, demonstration, experimentation, evaluation, and monitoring will not become dissipated. This is too narrow a view, however. A new evidence-based system of coordination, planning, and accountability could mark a huge step forward in the development of economic well-being and social cohesion in Canada.

The existence of such a system would be an enabling condition that could allow many win-win solutions to emerge.

Obviously no set of statistics will solve difficult jurisdictional and constitutional issues. However, agreed data would allow co-operation on matters of substance with less risk of being immobilized by these larger governance issues — provided that everyone could gain by such co-operation.

In fact, most of the actors do have an underlying interest in participation in such an evidence-based system. That is, *self-interest in co-operation increases* given a move towards the new policy directions described throughout this chapter.

Recall that most important outcomes in the area of economic well-being are the combined result of many factors, including the actions of many players. Therefore, any particular agency can only understand its own role in achieving success if there is a coordinated framework of measurement that allows the roles of all parties to be seen. As has been shown, moving to life-course

perspectives increases the degree of interdependency and, hence, the need to understand the whole system in order to assess the performance of any one player in that system. Similarly, sharing of experience on what works best can only be the result of common statistics and a coordination framework as set out in Box 9.

4.7 Conclusion

This chapter has outlined the main new ways in which policy can find win-win ways of responding to medium-term pressures for change. The new strands of the policy response that were identified are consistent with any likely set of socio-economic trends and given any foreseeable political agenda. What the chapter does not do is indicate what priority might be attached to the various elements (or to component elements within them) or how they might be applied in combination with other policy directions — especially those emerging from Canada's Innovation Strategy. In other words, there has been no attempt to put the various strands together into a coherent overall framework. That is the subject of the next chapter, which outlines three possible scenarios for the future.

For each of the common policy strands discussed in this chapter, there is a suggestion for the kind of policy research and development that is needed. In some cases, there is a very specific proposal for some preparatory steps that could be taken. These are suggestions only — meant to open a discussion as will be stressed in Chapter 6 describing these additions to the medium-term policy toolkit in more detail.

Chapter 5

Planning for an Uncertain Future: Three Scenarios

5.1 Overview

The last chapter described the main new elements in a medium-term policy response, but did not describe the strategy itself. How should the policy strands that were discussed be woven together? How are they linked to the policy strands that are emerging from the human development and skills agenda? What overall goals are to be achieved? And how quickly? Are market-based solutions or community and family-based solutions to be given priority?

These are important questions for a paper that is attempting to identify the kind of policy-development work that should be begun now in anticipation of a future agenda. Broader strategic issues matter a great deal in planning this development work.

As noted in the second chapter, quite different policy interpretations arise when one looks at past experience. Uncertainty about the future is far greater; much about the future is simply unpredictable. The approach used here to managing that uncertainty is to examine how today's policy research and development might support three distinct future scenarios that, among them, cover a wide range of the possibilities that are open.

We begin by reviewing the structure of today's policies and their recent evolution. This is important background because the policy envelope being considered here — consisting of a wide range of social policies directed to economic well-being — is quite new. It is hard to have a sense of future developments in an unfamiliar envelope without some sense of past trends.

Section 5.3 outlines three possible directions that are likely to make sense given different assumptions about how the future might emerge. A continuation along existing policy pathways, the baseline case, is referred to as leading to a Life Is Learning scenario. Two alternative directions lead to Life Is a Job and Life Is Citizenship scenarios.

The next sections outline why all three scenarios are consistent with changing values and fiscal realities. Section 5.4 looks at the possible effects of changing values and public expectations for policy. Section 5.5 asks whether North American economic integration will result in any pressures towards convergence that would affect the choice of scenario. Section 5.6 examines the possible effect of tomorrow's fiscal situation. Will it be a time to curtail spending on programs within the scope of this paper? Or will it be a time to invest?

The concluding section stresses that the scenario exercise is *not* intended to provoke a discussion of which scenario is best, or which parts of different scenarios might be combined into the best compromises package. Policy-makers will need to make that kind of decision in about five years' time. The purpose of this paper is to propose policy research that can be undertaken now to help make those future decisions.

5.2 Today's economic well-being policies: A new policy envelope

The last chapter argued that a new system of consultation, planning, and accountability should be based on a new policy envelope consisting of the main policies that support economic well-being. However, economic well-being does not correspond well with most current typologies for

describing social policies. We therefore start by categorizing existing policies in terms of this new envelope.⁶¹

In past chapters, we have used a typology of income security programs, labour market integration programs, and skills acquisition programs. Here, we break out a fourth category, Citizenship Resources Programs, which is mainly general education but also includes literacy training and some forms of community development. The other skills acquisition category becomes, in consequence, Investing in Labour Market Skills, which covers adult training and much post-secondary education.

While distinguishing between generic education (preparing for life in general) and specific skills acquisition (preparing for the labour market) can be misleading,⁶² it is helpful for the subsequent discussion of policy scenarios.

Table 2 provides examples of the programming under the four headings, their objectives, and relative size in Canada today. Note that the table implies a highly stylized national picture. In reality, there are considerable differences across provinces.

The evolution of the policy “envelope” in recent decades

Figure 10 represents these groups of programs as a set of overlapping circles. On the left side, another cluster of circles represents the policies as they were in the early 1960s, around the period in which the policies were put in place in their modern form. This again is a highly stylized picture that illustrates two points:

- The size of the circles gives a (rough) comparison of the size of public spending on the programs, relative to what it is today. In particular, labour market skills play a much smaller role in the earlier period. This was before the creation of today’s community college system and the doubling of the size of the universities.
- The extent to which the circles overlap is meant to suggest the extent to which policies were perceived to be interrelated. Basically today’s policies are seen to be more “joined up” (to use British terminology) than was formerly the case, as was discussed at more length in the last chapter under the heading of horizontal integration.

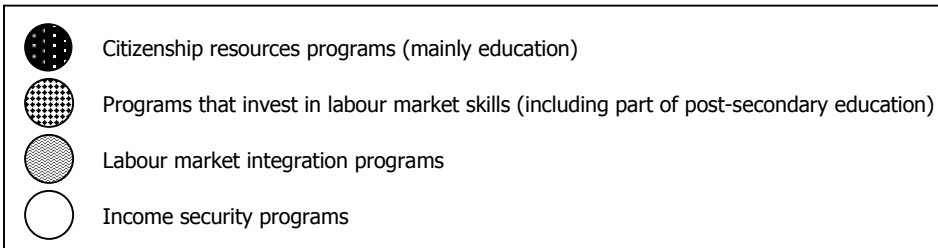
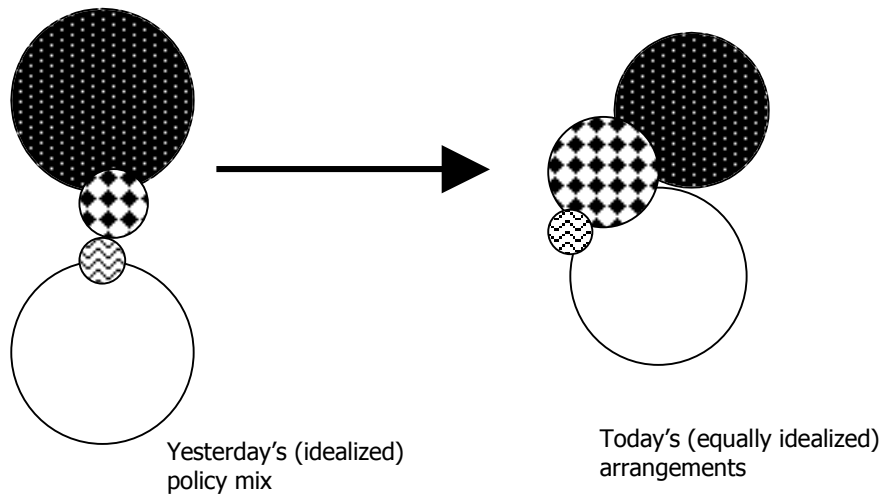
⁶¹The analysis in the chapter reflects a certain tension between the mandate of this paper which was to focus on the economic well-being of the working-age population and the proposed new social policy envelope, which, consistent with the life-course approach, would not have any age restrictions. In particular, the descriptions of the scenarios exclude policies directed to older people (including pensions), while these would, of course, be included in the new policy envelope.

⁶²The distinction is useful for the purposes of this paper, but artificial for most purposes. The generic, essential skills learned in elementary and secondary school — the ability to express oneself, to apply general principles, to act in teams, and so on — are as useful in the labour market (likely more useful) as are specific occupational skills.

Table 2: The Economic Well-Being Policy Envelope in Canada (Excluding Policies Directed to Older People)

Program Responses Within the Scope of This Paper		Responses in Other Envelopes
Objectives and Concerns	Examples	Public Expenditures
<p>Income security programs Equality of income outcomes in the present. At the macro level, reducing cyclical swings, automatic stabilization. At the micro level, insuring against unemployment, protecting against low incomes and, to a lesser extent, reducing income inequalities overall. Entitlements mainly linked to employment status.</p>	<p>Social assistance Regular employment insurance Child benefits (i.e. parental benefits) Disability pensions</p>	<p>Largest: Accounting for nearly 50% of the envelope (see note to Figure 10)</p> <p>Redistributive personal income taxes</p>
<p>Programs that invest in labour market skills Equitable opportunities (to labour market access) over the course of life. At the macro level — economic competitiveness. At the individual level — redressing a lack of competitive labour market skills that could lead to mediocrity on average and social exclusion for some.</p>	<p>Adult training Professional and trade education at the post-secondary level</p>	<p>Medium: Perhaps 10 and 15 % of the total envelope (see note to Figure 10)</p> <p>Industrial, regional policies that support entrepreneurship</p>
<p>Labour market integration programs Social inclusion and equitable access to employment in the present. At the macro level, economic growth through a high per cent of the population being employed and flexible labour markets. At the micro level, lack of jobs, lack of income due to low-paying jobs, unsafe or insecure jobs. Entitlements tightly tied to working status (e.g. on benefits for the working poor, not to the poor who do not work).</p>	<p>Active labour market policies Services that match people with jobs, regulation (minimum wages, etc.) Making Work Pay Removing work disincentives in income security</p>	<p>Smallest: Under 5% of the total envelope (see note to Figure 10)</p> <p>Macro policies that support growth, job-creation</p>
<p>Citizenship resources programs Equitable opportunities over the course of lives in realizing potential capacities. At the macro level, using a society's full potential for economic and social purposes. At the micro level, providing resources to enable use of full potential. Tackling marginalization and social exclusion (and prevention from potential exclusion) resulting from dysfunction in families, communities, and markets.</p>	<p>Kindergarten to Grade 12 and general post secondary education Community development social economy, flexible working arrangements, and family supports Labour market information, promotion of volunteering, literacy, and active living</p>	<p>Large: Perhaps 35 to 40% of the envelope (see note to Figure 10)</p> <p>Human rights Many local services Crime and justice</p>

Figure 10: The Evolution of the Economic Well-Being Policy Envelope



Source: Author's calculations.

Notes: The size of the circles corresponds roughly to public spending of both orders of government in the designated area as a portion of total spending in the envelope. Programming directed to older people is excluded. The expenditure figures are based on some quite arbitrary assumptions made by the author based on HRDC social expenditure data. For example, it is assumed that elementary and secondary education and a quarter of post-secondary education is devoted to general citizenship education; three quarters of post-secondary is devoted labour market skills. In reality, of course, "citizenship" skills of literacy and numeracy are very much used in the labour market. As well, the border between labour market integration and labour market skills is murky.

What the figure cannot show is the very considerable degree of evolution that has taken place in recent decades within each of the streams:

- In income security programs, recent decades have been marked by greater targeting of benefits. In the most recent years, the emphasis has been on cutbacks and tackling work disincentives in programming related to the working age population. Income security for older people has become more important — as has, more recently, support for parents with younger children.
- In specific labour market skills programs, there was a burst of spending at the start of the period with the extension of the post-secondary sector, including federal purchase of seats in the community college for some participants in active labour market programs. Since then, there has been a withdrawal of the more direct federal role both in fiscal transfers specifically earmarked for post-secondary education and in the extent of direct seat purchase. The federal role has been increasingly focused on general social transfers to the provinces, information and support directly aimed at students such as loans and scholarships.
- In labour market integration programs, there has been a gradual shift to targeting clients with persistent problems and to shifting people off Employment Insurance (and social assistance at the provincial level) and into work. There has been a growth of interest in making-work-pay policies, including through children's benefits.
- In citizenship resources programs, most action has taken place at the provincial level, where there has been a recent period of fiscal restraint and, depending on province, greater concern for the achievement of educational standards across schools. At the federal level, there has been a considerable focus on literacy issues, including direct statistical surveys of adult literacy.

5.3 A range of possible directions for the future

This section extends the analysis of trends into the future. Three different directions for policy are imagined, leading to three different future scenarios. The goal is to provide a sensitivity test to ensure that today's policy research and development is likely to be relevant to a range of quite different futures. The analysis of policy drivers and responses in the previous chapters concentrated on factors that are reasonably predictable today — mainly those relating to demographics and labour supply. But many factors — possibly the most important factors — cannot be predicted today. These include changes in the economy, in technology, in the environment, and in values. And, as described earlier, the challenge is even greater for policy-makers because of uncertainties about how people and markets would adjust to such external changes, even if they could be predicted. There are even conflicting views on how to interpret recent trends, as described in the second chapter.

Among them, the three scenarios chosen — although highly stylized — seem to cover a wide spectrum of medium-term possibilities. If strategic planning, and policy research and development were to prepare for all these possible futures, there should be few surprises in practice.

Chapter 3 argued that the present emphasis on lifelong learning for all would certainly persist into the future. We therefore refer to policy directions that maintain this emphasis as leading towards a Life Is Learning scenario.

Life Is Learning is the baseline scenario. The policy optimists of the second chapter who see the glass as half full would want to be sure that today's policy research and development would support the further development of this scenario.

The policy pessimists of the second chapter who see a half-empty glass would welcome especially research that could facilitate a shift to alternatives to the baseline scenario: Life Is a Job and Life Is Citizenship.

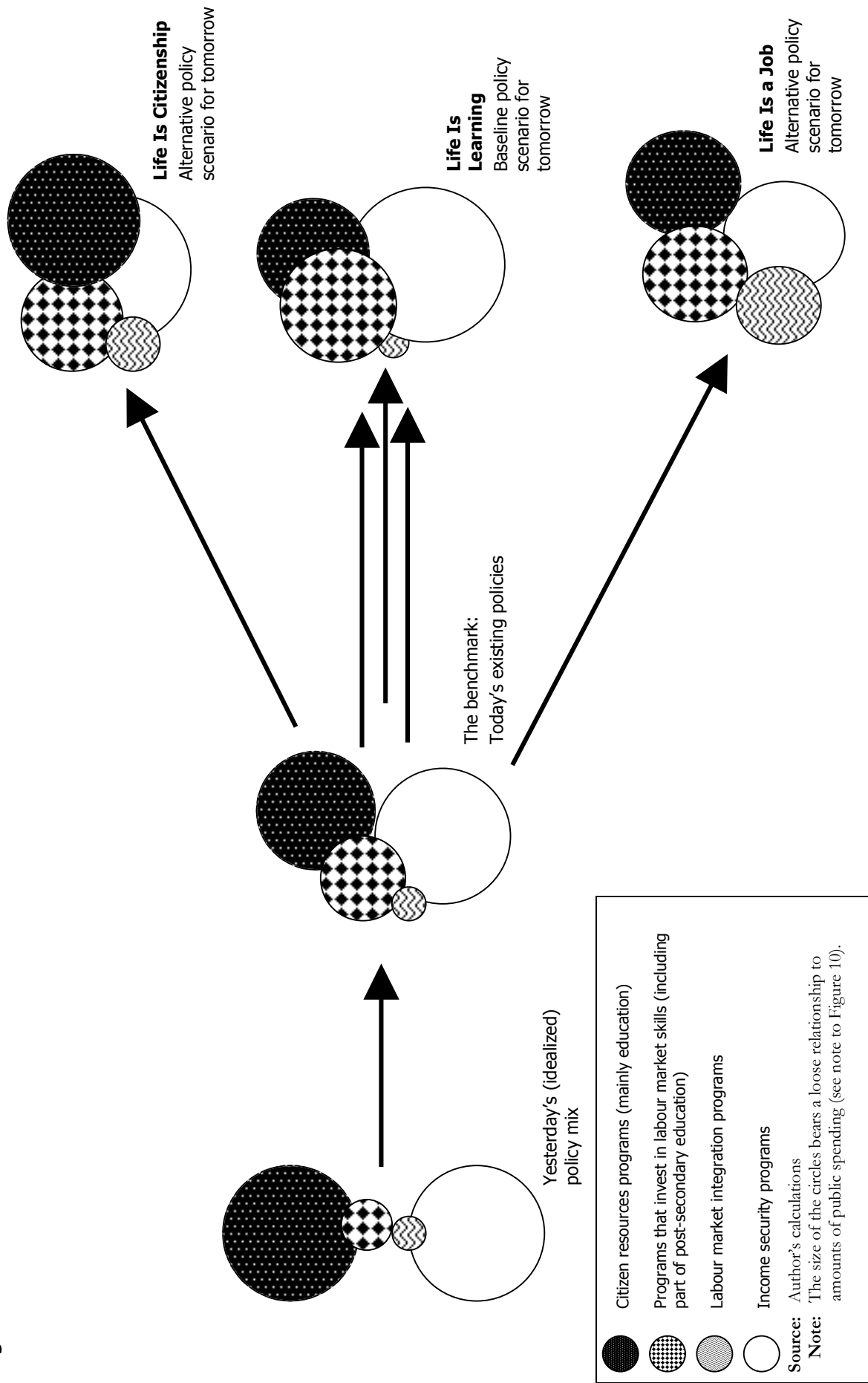
What the scenarios have in common and how they differ

As illustrated by Figure 11, the three scenarios hold much in common. All four programming streams remain important in each. But the figure also indicates important difference among them. The size of the circles — and the extent to which they overlap and the order in which they are placed on top of each other — are highly stylized ways of comparing the scenarios with the benchmark of today's policies in terms of relative size, extent of horizontal integration, and priority on the policy agenda:

- In the baseline Life Is Learning scenario, skills acquisition programming grows in importance, particularly those related to labour market skills. Safety net income security also remains large. While the main focus shifts to equitable opportunities in the future, there remains a need for traditional income security to prevent exclusion and inequality in the present.
- In Life Is a Job, the basic contents of the baseline Life Is Learning remain, although likely at reduced budget levels and new elements are added: make-work-pay, labour market information, and many other jobs-oriented programming play a larger role. Skills acquisition also remains highly important. Income security policies will play a lesser role (being replaced by greater income security arising from jobs and reflecting the desire to minimize work disincentives in income security transfers).
- In Life Is Citizenship, again the basic contents of Life Is Learning are retained, but with more additions. The size of the various programming elements is more equal and these elements are more “joined up” than in the other scenarios. There is less need for traditional income security (because of the emphasis on mutual obligations), but there is also greater emphasis (and spending) on supporting all groups in realizing their potential.

The substance of policy directions. There are also important similarities and differences in the substance of the policy directions within the various programming streams. For example, the policy responses in all the scenarios reflect a continuing emphasis on learning, and encompass all four of the new strands of the medium-term policy response that were discussed in the last chapter. However, they do this in different ways and to different degrees as Table 3 illustrates. The example of lifetime accounts, which were discussed in Section 4.4, is used in this table to illustrate that this newer type of policy instrument has a place in all scenarios, but with very different implications for policy design.

Figure 11: Three Possible Scenarios for the Future



Where Canada stands internationally

As described earlier, a focus on lifelong learning for all is widespread in OECD countries and the baseline scenario would be no surprise in any of these countries. However, compared with Canada, other countries have also placed more weight on the alternative scenarios, both in terms of actual implementation and in terms of policy research and development:

- The United States — with its massive welfare reform of 1996 and the large expansion of earnings supplementation — is closer to Life Is a Job. Note, however, that many countries share a desire to have macro-economic and structural policies that support jobs and full employment, along the lines of the OECD jobs strategy.
- Life Is a Job and, particularly, Life Is Citizenship themes are prominent in European policy agendas, depending on the country. Social cohesion has long played a larger role on many European agendas than is the case here. Concepts such as a citizenship “wage” — or a financial trust fund for all children or financing individual retirement accounts through traditional pay-as-you-go methods — are more commonly found on European agendas, although again with much variation across countries. The service-intensive Scandinavian countries seem close to Life Is Citizenship, but jobs are never far from the surface. And the UK “third way” blends a heavy American-style emphasis on Life Is a Job policies within a broader framework of social inclusion that has many of the elements of Life Is Citizenship.

Are the differences real? It may be that the difference among countries in policy directions is not as great as first appears. Some of the differences may reflect the language used in public discourse, rather than substantial underlying differences.

In Europe, for example, public discourse reflects the conscious development of a new language and a new set of tools for redefining the welfare state as the countries explore ways of working together at the level of Europe as a whole. As well, the newer European language can be seen as a conscious effort to transcend outdated partisan approaches of the past — the third way in the UK and similar themes in other countries. These attempt to create a balance among individual, market, family, and state that is more suited to today’s realities than is possible using the old left-right dichotomies. In Canada debate had never been as ideologically polarized and there is less need to find a new language.

Moreover, Canada is noted for introducing substantial changes through small, seemingly technical design changes in areas such as the escalation of program parameters or in their tax treatment. That process might now be taking us, almost invisibly, towards Life Is a Job or Life Is Citizenship:

- The Child Tax Benefit may well be a major step in the direction of Life Is a Job through the make-work-pay features that will result in more benefits to working poor parents. However, this effect is not readily transparent⁶³ as it results from the way in which federal and provincial programming work together, and not from clear, legislated design criteria.
- The extension of Registered Retirement Savings Plans (RRSPs) to allow savings to be used for housing and learning as well as retirement income can be thought of as a signal of an

⁶³The Canadian Self-Sufficiency Project is an exception in that it does have good visibility, although it is only a small step in the Life Is a Job direction when compared with the huge American earned income tax credit.

evolution towards Life Is Citizenship, although it would not be customarily portrayed that way.⁶⁴

Do the differences matter? The international comparisons above are a digression in the sense that they compare actual policies. In this paper, the scenarios are not used as alternative policy prescriptions, but only as sensitivity tests to ensure that today’s policy research and development is sufficiently broad to meet a wide range of future possibilities. Yet it is not possible to completely de-link the two concepts. Countries clearly concentrate their research and development on those scenarios whose substance seems best to them.

It seems clear that the newer policy approaches have attracted less research and development in Canada than in many other countries. Asset-based policies are a good example. Development work on asset-based welfare policies — particularly individual development accounts — is well advanced in the United States. In the United Kingdom there are proposals to make asset-based approaches the “fourth pillar” of welfare policy, along with income security, jobs, and social services. Some experimental work is also being considered in Canada, but the topic is far from the main public agenda.

5.4 All three scenarios are consistent with changing values

The next sections look at external factors that might affect the credibility of the scenarios. There is no use undertaking policy development and research planning for a scenario that cannot happen.

This section looks at changing values and public expectations, particularly at any trends that are likely to push us away from the Lifelong Learning for All baseline and towards the current American version of Life Is a Job or towards the broader Life Is Citizenship directions.

The structure of society has been evolving rapidly

During the four or so decades since most of today’s social policies were designed, there have been deep changes in the age structure of the population and in family structures.⁶⁵ There have been equivalent changes in how people earn their living — the shift from the primary and secondary sectors to the service sector and to the growth of knowledge workers — and in the nature of economic organization: globalization and North American economic integration.⁶⁶

Equally deep changes in the allocation of work, leisure, and learning over the course of life have been discussed in earlier chapters. This includes an explosion in post-secondary education (and in the educational attainment of the population) and a great expansion of time spent in retirement. Radical gains have been made in gender equality in learning and the labour market. As well, there have been large gains in security against risk of poverty in old age — where Canada was once weakest compared with other developed countries.

⁶⁴Yet, with extensions, RRSPs could well evolve into a powerful asset-based, multiple-purpose lifetime account — especially if means were found to extend coverage among lower income people.

⁶⁵This includes fertility declines and population aging, large gains in longevity and health, the end of the single breadwinner family, new patterns of marital breakdown and re-formation, and the reversal of the generational support contract (i.e. the huge growth in the number of parents and grandparents relative to the number of children).

⁶⁶Changes in communications, transportation, and economic interactions that have redefined what is near and what is “ours.”

Table 3: How the Scenarios Differ

Life Is a Job	Life Is Learning	Life Is Citizenship
<p>Policy focus on supporting strong markets — i.e. on the mechanisms that promote efficiency and competitiveness</p> <ul style="list-style-type: none"> • Flexible markets will employ more older people if there is a true need. • Reduce retirement disincentives in social programs, promote best practices, fight discrimination, etc. • Where markets fail to provide adequate earnings, earnings supplementation should be used to ensure that working does pay. • There is more reliance than in the other scenarios on passive measures and on macro-economic policy that supports full employment. 	<p>Policy focus on lifelong learning for all — i.e. on the fundamental assets that underpin economic and social well-being</p> <ul style="list-style-type: none"> • Raising generic skill levels for all. • Mid-career learning (to support productivity, but also to provide the skills needed to work later in life minimizing the wastage of public investments in learning by too early retirement). • Early childhood development. <p>Focus on learning-centred transitions and balances</p> <ul style="list-style-type: none"> • School-to-work, school-to-adult training, adult training-to-work, welfare-to-work / further learning. • Emphasis on continuity of learning over life, skill-based standards for recruitment, pay etc. 	<p>Policy focus on participation in non-market as well as market activities — i.e. on the outcomes of a society and economy that works for everyone.</p> <ul style="list-style-type: none"> • Caregiving joins work and learning as key domains of interest for policy, with work defined broadly to encompass unpaid work and the social economy. • Preference for a wider range of policy instruments, including labour market regulation, building child-care infrastructure, social housing. • There is greater reliance on social services than in the other scenarios (and less on income support by itself). <p>Holistic focus on life transitions and balances</p> <ul style="list-style-type: none"> • Includes balance among cultural and community activities and caregiving — as well as work and learning. • Social capital, social inclusion receives higher weight.
<p>Focus on work-centred transitions and balances</p> <ul style="list-style-type: none"> • efficient and flexible school-work, welfare-to-work, and work-retirement transitions. <p>Life Is a Job utopians dream of full employment for all. Their lifetime accounts are:</p> <ul style="list-style-type: none"> • Those where the individual or a parent makes the contribution, likely tax-subsidized (e.g. privatized retirement accounts and employment accounts to replace pay-as-you-go pensions and Employment Insurance). 	<p>Life Is Learning utopians dream of lifelong learning for all. Their lifetime accounts would be some mix of:</p> <ul style="list-style-type: none"> • Individual development and learning accounts. • Income contingent repayment student loans, registered educational savings plans. • Time-based sabbatical leave accounts. 	<p>Life Is Citizenship utopians dream of a full, rewarding life for all in the community, family, and market. Their lifetime accounts are:</p> <ul style="list-style-type: none"> • Those with larger collective contributions to equalize life risks, and wide choice on how funds could be used (e.g. UK proposal to start all children off with a trust fund based on a government endowment linked to parent's income).

What They Have in Common

In order to have scenarios that are realistic, as well as ones that test the range of plausible future directions, all three scenarios reflect the continued emphasis on learning and the four new strands of the policy response that were discussed in earlier chapters — but to different degrees and extents.

These extraordinarily large changes are well-documented and it has often been demonstrated⁶⁷ that virtually all the demographic and socio-economic assumptions underlying the social policies of 1950s and 1960s have been turned on their head.

Changing values — across the OECD world generally

Given these structural changes, and these gains in economic well-being, it would be reasonable to anticipate major changes in people's values and expectations in areas related to future economic well-being. The literature suggests that values have changed but, almost certainly, more slowly than the structural changes or economic well-being gains would suggest.

Surveys of values (see Nevitte, 2000) indicate that the need for income and physical safety remain. However, as real income has risen, there has been a growing emphasis on post-materialist values. These newer values place higher weight for self-expression, freedom, and the quality of life. There is greater interest and direct participation in the political process, but less trust of existing political institutional arrangements and actors.

These value shifts have occurred in all advanced countries and are largely independent of the actual political institutions and social policy arrangements in the various countries. This can be seen in Table 4, which shows changes across the decade of the 1980s, one of the few periods when comparable data were available.

Trends in public expectations seem most likely to favour "Life Is Citizenship"

At core, people are placing less value on work and income and higher value on quality of life and direct social participation. This is referred to as a shift towards "post-materialist" values. That would seem, on surface, to make Life Is a Job (which focuses on work) less attractive and Life Is Citizenship (which takes account of all domains of life) more attractive.

But is this really the case? When we look around us, we see few signs of a post-materialist policy agenda. If so much has changed in our way of life (and in our standards of material well-being), why have values not changed as quickly? And why have the values shifts that have occurred not had a larger effect on expectations for the policies within the scope of this paper? The basic design of most policies in most OECD countries has changed only incrementally over the last 40 years.

Indeed, one important post-materialist aspiration does not appear to have materialized at all — namely, the focus on quality of life and an active participation in all domains of life. If anything, time crunches seem to be rising in the middle sections of life while the growing leisure in retirement is spent mainly in a passive fashion. As the discussion of social capital in Section A.7 of the Appendix indicates, participation in volunteering and in social networks outside the family appears to be on a downward secular trend.

The following paragraphs explain why there are lags in public expectations for policy change and suggest that this could change, possibly very quickly, in about 5 to 10 years' time.

⁶⁷Including by the present author (Hicks, 1995).

Table 4: Shifting Value Orientations in 12 Advanced Countries, 1981–1990

	In a Majority of 12 Countries	In Canada	Correlated With		
			Age	Education	Post-Materialist Value Type
Political orientations					
Interest in politics	Rising	Rising	Yes+	Yes+	Yes+
Confidence in government institutions	Falling	Falling	Yes+	Yes -	Yes -
Confidence in non-government institutions	Falling	Falling	Yes+	Yes+	Yes -
Economic orientations					
Importance of work	Falling	Falling	Yes+	Yes -	Yes -
Support for meritocracy	Rising	Rising	Yes+	Yes+	Yes +
Pride in work	Rising	Rising	Yes+	Yes +	Yes -
Worker participation	Rising	Rising	Yes -	Yes +	Yes +
Job satisfaction	Falling	Falling	Yes	Yes	Yes
Financial satisfaction	Falling	Falling	Yes	Yes	Yes
Social orientations					
Moral permissiveness	Rising	Rising	Yes -	Yes+	Yes +
Principle of tolerance	Rising	Rising	Weak	Yes +	Yes +
Egalitarian spousal relations	Rising	Rising	Yes -	Yes +	Yes +

Source: Selected from Table 1 in Nevitte (2000) that was based on the 1981 and 1990 World Values surveys. Some minor simplifications to the symbols used were made by the author after informal discussion with Nevitte.

Note: The plus and minus signs in the last three columns signify positive or negative correlation. Countries include France, Britain, West Germany, Italy, Netherlands, Denmark, Belgium, Spain, Ireland, Northern Ireland, United States, and Canada.

Public expectations about policy content have evolved slowly

Values and expectations evolve slowly, much more slowly than the substantive changes in living arrangements and levels of economic well-being that have been described.⁶⁸ The effects of the value shifts in Table 4 are only beginning to be translated into views on policy directions. The table shows that changing values are closely related to age. And aging is a slow process; people only grow older with the passage of time. As well, the links between values and their policy expression is quite indirect.⁶⁹ It can take a long time before value changes are reflected in policy.⁷⁰

⁶⁸See Inglehart (2000) for an analysis of the World Values surveys that shows evidence of both massive cultural change and the persistence of distinctive cultural traditions. Values and traditions evolve slowly and in a path dependent manner.

⁶⁹For example, the views of older people on retirement policy should, on the surface, be a case where a close link between attitudes and policy might be expected. Yet, the OECD (2001) concluded that the growth in the number of older voters is unlikely to have a large effect on retirement policy. First, views on particular, but key, policy issues — such as escalation formulae or various ceilings on entitlements — are not always easily linked to fundamental values. Second, while age does affect those fundamental values, other factors often play a larger role in shaping opinion around any specific policy issues. Third, in practice, it has proved relatively easy to neutralize potential losers by devices such as the gradual introduction of reforms or grand-fathering arrangements.

⁷⁰Further, values and expectations about policy may be driven more by subjective assessments of well-being than by the objective gains discussed above. As was described in Chapter 2, increases in material living standards do not result in an equivalent increase in perceived well-being. If we do not feel better off, our initial reaction is more likely to be distrust of policy-making than an increase in our expectations for policy.

Major change, possibly a rapid catch-up, may be at hand

If the argument is correct that policy has lagged behind changed social structures, changed levels of economic well-being and changed values, then one could expect a catch-up period ahead. Several factors suggest that the catch-up may be particularly pronounced starting in about five years' time.

As noted, people age only one year at time, but the existence of the baby boom bulge means that large number will be retiring together. In 5 to 10 years' time, that generation will start moving into the traditional retirement and pre-retirement years in earnest. That event seems likely to precipitate changes in people's expectations about economic well-being policies.

Life-course issues such as lifelong learning or work-retirement transitions will move to centre stage then because of the producer-consumer and the labour shortage issues discussed in the third chapter. Many baby boomers who now profess a wish to continue working and to volunteer after the normal retirement age, may have the practical opportunity to do so.⁷¹ This time period is also likely to be marked by renewed concern about the caregiving associated with a growing number of frail elderly parents — again an issue that cannot be solved except in the context of a re-thinking of policy in life-course terms.

Demographic and value changes are, therefore, likely to re-enforce each other in the medium-term time frame of this paper. It is then that the floodgates can be expected to open.

All three scenarios have elements that are consistent with the new values

There seems little doubt that, on balance, the post-materialist values are most closely attuned to Life Is Citizenship goals. However, all the scenarios are consistent with the new values.

A key feature in all — the encouragement of later retirement through, among other means, supporting quality workplaces that have suitable jobs for older people — is likely to attract wide support. Flexible participation in meaningful work in later life accords well with post-materialist values, as does lifelong learning which again is present in all scenarios, although most strongly, of course, in Life Is Learning.

Because the scenarios are all based on the life-course and asset perspectives, they all contain strong win-win elements as discussed in last chapter. That means they are very well-suited for pulling together coalitions of political support from various constituencies, including demographic groups — traditionalists, baby boomers, Generation X, and the like.

In summary, the discussion of changing values rules nothing out. However, it does lend support for keeping all three scenarios open in terms of further developmental work. The discussion does point to the possibility of quite major, and politically popular, changes in the future directions of social policy.

5.5 Converging with American "Life Is a Job" directions?

One of the messages from Table 4 is that similar value shifts are taking place in most developed countries. As well, a commonly expressed fear, or wish, is that North American economic integration will, or could, lead to convergence and homogenization of policies in the interests of

⁷¹See section A.4 of the Appendix for a discussion of the likely future demand and supply of labour.

efficiency. The question here is whether such convergence in values and possible pressures towards policy convergence, are likely to lead Canada in the direction of the Life Is a Job policies that are dominant in the United States.

The question of policy convergence has been much studied and the general sense is that policies in different countries are likely to evolve in similar directions, but on parallel as opposed to converging paths. Further, at the more fundamental level of the amount of collective resources that countries devote to social policies, the differences were never very large to begin with — counter too much of what has been written on the subject. Box 10 reviews the evidence.

The contents of the box make it clear that there is nothing inevitable about policy convergence. Neither value convergence nor North American economic integration forces us in the direction of Life Is a Job scenarios. However, nothing in the box suggests that doing so would be a bad thing either. The Americans have made considerable progress on a number of make-work-pay and welfare-to-work fronts and their reforms are receiving empirical evaluation that is enviably rigorous by world standards. We might well choose to move in some of these directions — not because we are forced to, but because they make sense. That is, they may well respond to pressures that we, too, face.

5.6 The scenarios make sense in light of possible fiscal pressures

When looking to the medium-term policy agenda, it would be useful to have some idea of the likely fiscal environment. Are we more likely to be in a world where we will need to make major cuts from existing spending levels, or is new investment likely to be the desired option? The answers will shape our decisions on what kind of policy development work should be undertaken. There is no point in undertaking research and development directed to scenarios that will be unaffordable.

The factors that could shape the fiscal environment are discussed in section A.11 of the Appendix. It examines, in particular, the effects of age-related spending — the only determinant of future fiscal capacity in this envelope that can be projected with any confidence.

In recent years spending directed to older people has likely been crowding out spending directed to other age groups. The demographic pressures are, however, moderated by the fact that older Canadians will themselves pay for a significant portion of the added costs of aging through taxation of pension income. More important, the crowding-out problem could simply disappear as the elegant consequence of transforming people who were formerly of retirement age into people of working age — that is, if effective retirement age were to rise.

In other words, no scenario can be ruled out on fiscal grounds — including variants of the scenarios that involve larger social investment, or even larger social expenditure. In fact, while the scenarios overlap each other greatly in terms of potential public spending, they cover a good range of plausible future fiscal scenarios:

- Life Is a Job would likely have most appeal in a world where cutting public expenditures was a top priority.
- Life Is Learning would have most appeal for an agenda based around investing for long-run competitiveness — especially attractive if, in this time period, we could begin to calculate the expected returns on such investments.

Box 10: Converging Values — Will Canadians Become More American?

As seen in Table 4, value changes in Canada are similar to those in most developed countries. The hot Canadian topic is whether our values — and our expectations for social policy — are becoming more similar to those in the United States as a consequence of North American economic integration and the strengthening of north-south rather than east-west ties. What will happen to Canada's alleged preference for a larger public role in social policy?

There are two sorts of questions. One relates to preference for collective action generally. Is it diminishing? The other relates to social programs within the scope of this paper. Are they converging?

Differences were never as great as they first appeared

As it relates to income security and social programs as a whole, there is not as much difference among countries as first appears. The chart shows that total social spending (public and private expenditures such as private pension costs) is about the same in Canada, the United States, and other OECD countries for which the calculation is possible. On a net basis, Canada is actually lower than the United States and the OECD average.

These net figures take account of the effects of taxation, including the social benefits that are taxed back in the income tax system and tax breaks for social purposes such as earned income tax credits that are, in effect, a substitute for public spending.

Canada is in the middle of the pack in terms in clawing back benefits — with about 10 to 15 per cent of benefits taxed back. In most Scandinavian countries and the Netherlands, the figure is well over 20 per cent, while in the United States (along with the United Kingdom and Japan) it is less than 5 per cent. However, excluding pensions, tax breaks for social purposes in Canada are about 0.9 per cent of GDP, less than the American figure of 1.3 per cent.

In looking only at gross *public* spending, Canada does spend more than the United States and other OECD countries. However, on a net, after tax basis, countries are about the same in terms of public social effort.

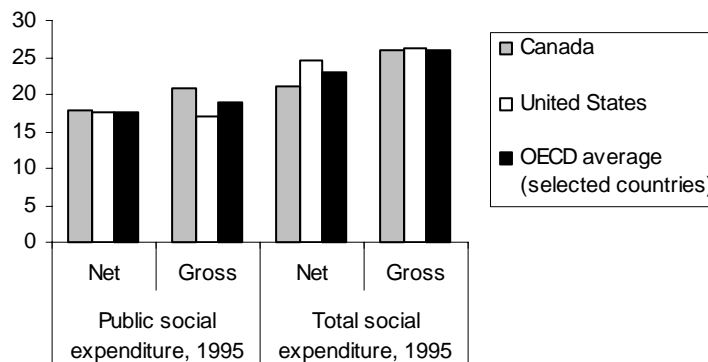
And, if anything, policy designs are diverging

More generally, economic integration per se does not appear to be a major factor in homogenizing values. Indeed, on many scales, Canadian values have for long been similar to those of more northern American states. Indeed, the values of northern American states tend to be more similar to those in Canada than to those in the American south.

Further, Banting (2000) has shown that there is no signal of any post-NAFTA convergence of American and Canadian social policies.

Recent studies (OECD, 2001) show that countries are responding to common aging challenges in ways that get similar results. However, they are doing this by means of programming that is becoming more divergent. This even includes European Union countries where social program diversity is increasing at the same time as the economy is being integrated.

Social Spending as a Percentage of GDP, 1995



Source: OECD (see Adema, 2001).

- Life Is Citizenship would have greatest appeal if the fiscal time were right to develop social infrastructure, build up social capital, and tackle important issues of social exclusion, including growing challenges surrounding child care and elder care.

More importantly, there appears to be an opportunity under all scenarios for fiscal and social policy to work in consort — with win-win outcomes on both fronts rather than the more usual situation of having to make hard trade-offs.

5.7 Conclusion

In the real world, life is about jobs, about learning, about citizenship, and about much else. The scenarios presented above, however, are about policy, not real life. That is, they examine those aspects of life where social policies have (or should have) their greatest impacts. In this paper, the scenarios are not intended to open a discussion about the relative merits of the different policies. They are simply intended to act as a sensitivity test to ensure that today's research and development is robust in light of a highly uncertain future.

Nevertheless, in order to make the scenarios reasonably realistic, they were (perhaps mistakenly) designed to roughly mirror the actual policy positions of various groups in Canada. Perhaps in consequence, earlier drafts of this paper seemed to invite a substantive discussion of which of the three scenarios would be best for Canada or, more commonly, of which elements from the various scenarios should be kept in order to construct a single ideal model. In other words, some readers put themselves in the role of policy-makers some five years in the future when it came time to deciding which route to follow. That is, admittedly, a much more interesting exercise than the more pedestrian “sensitivity-testing” intent of this paper — which involves keeping open a number of scenarios that are plausible, but quite distinct.

Earlier in the chapter, we argued there was consensus in the developed world around the importance of the baseline scenario, Life Is Learning, but that other countries were going further than Canada in policy research and development that could lead to the newer alternatives of Life Is a Job and Life Is Citizenship.

It is certainly possible that Canada's less adventurous stance is simply a realistic reflection of the success of past policies. There is no need to change drastically. Canada does not need to undertake research to develop a “third way”; we are already on that third way, as reflected in the Life Is Learning scenario.⁷² A more prudent view, however, would be that a failure to undertake policy research and development that anticipates possible new directions could put us at risk of falling behind other countries.

What is needed today is policy development work that will allow future policy-makers to have a real choice in moving in new directions — as represented by the three scenarios — as future circumstances will dictate. The next chapter reviews work that, if begun now, could keep the main options open.

⁷²A less charitable alternative explanation is that past success has made Canada complacent. Past success may have immobilized us politically because any large change might hurt those who have won in past rounds.

Chapter 6

Adding to the Policy Tool-Kit

6.1 Overview

Early chapters, particularly the fourth chapter, outlined some practical initiatives that might be undertaken today to prepare for tomorrow's policy agenda. The focus was on the newer strands of the policy response. This final chapter brings these proposals together into a more structured, but still preliminary, sketch of a work plan. The word "preliminary" needs to be underlined. This is no blueprint. The list is silent on the critically important issues of who might do what? in what order? at what scale? and what cost? Nor are the more detailed descriptions of the work anything more than first thoughts.

The following section addresses the work that can be done in preparing for the biggest win-win policy opportunity identified in the paper — changing the consumer-producer ratio by encouraging later and more flexible transitions from work to retirement. In several years' time, it should be possible to issue a major green paper and launch a consultative process.

Sections 6.3 to 6.7 outline initiatives that build policy capacity:

- The capacity to design effective policies that support life transitions (Section 6.4).
- The capacity to shift to an evidence-driven, systems-wide framework for coordination, planning and accountability (Section 6.5).
- The development of a knowledge base to support the new policy directions (Section 6.6).
- The capacity to innovate using new kinds of interventions (Section 6.7).

Finally, there are proposals for three strategic planning initiatives that explore some quite new policy directions for the future. They cover similar ground, but from very different perspectives falling under the three strategic studies sections:

- Section 6.8 describes an ambitious strategic planning exercise that focuses on the needs of the people being served by the policies, and explores new approaches to supporting social inclusion.
- Section 6.9 is a comparable strategic examination of the consequence of moving to asset-based policies.
- Section 6.10 calls for a major strategic planning exercise that focuses on new types of policy instruments. This centres on an exploration of the parallel universe of lifetime accounts.

Among them, these sections should provide a good foundation that will help future policy-makers as they decide to move towards Life Is a Job, Life Is Learning, or Life Is Citizenship.

The final section of this chapter concludes by suggesting that the proposed work, while ambitious, could have large payoffs. A powerful virtuous circle appears to be hovering on the medium-term horizon.

The chapter deals only with part of the policy research and development agenda — the portion that supports the newer policy directions described in the fourth chapter. For example, it does not address the equally important research and development that is needed to support the existing skills agenda, or to examine the effects of recent changes in Employment Insurance, or interprovincial labour mobility, or issues surrounding children's benefits or many other important topics that are already on the policy agenda.

There is, of course, no sharp dividing line between the existing and new policy agendas. In particular, Section 6.3, on building a stronger policy capacity, would support a wide range of policies, old and new.

6.2 Retirement transitions: Finding the right policy mix

Policies that affect the work-retirement transition will be at the centre of the medium-term policy agenda. As set out in Section 4.3, the task will be to find a new balance between the long-term goal of life-course flexibility and the medium-term goal of encouraging more time spent at work, and in learning. Doing so is important to moving in any of the future policy directions outlined in Chapter 5, particularly the Life Is a Job and Life Is Citizenship alternatives.

Proposed action: Preparing for an eventual consultation process

As mentioned above, Section 4.3 explains that what is needed is preparatory work that, when the time is ripe, would allow quick publication of a consultation paper (possibly a green paper) on moving to later, and more flexible, transitions from work to retirement. The preparatory work could

- review the need for reform, taking account that most adjustment will occur as individuals and markets adapt to new circumstances (This would compare the effects of later retirement with other potential changes [e.g. in immigration levels and in increasing the participation of working-age groups that do not now work full-time full-year.]);
- set out the various policy options that could support later and more flexible retirements, and the possible effects of each;
- describe various combinations of options, their combined effects (i.e. an assessment of win-win outcomes) and the extent to which coordinated action would be needed (It would be essential that a full range of options be covered including tax policy, pension policy, regulation of private pensions and workplaces, human rights related to mandatory retirement, promotion and moral suasion, and others.);
- support the analysis above through modelling that showed the effects of various options (including different assumptions about the amount of additional time that would be spent in work) on the ratio of producers to consumers, on fiscal positions, on the age and educational composition of the workforce, and on individuals and families in terms of income (and to the extent possible) asset positions. As well, it would be important to model the combined

financial effects of different approaches to taxes, transfers, and private pensions on retirement incentives; and

- explore, to the extent that the empirical evidence allows, the indirect effects of the various options, particularly related to the health⁷³ and to the economic implications of changing consumption patterns — for example, on consumption and savings patterns and on the demand for different types of goods and services that are associated with earlier and later retirement.

Some considerations

The need for a broad scope. Canada has one of the most balanced and diverse pension systems in the world — many elements of which already support flexible retirement plans. We also have a relatively flexible labour market — especially on the working hours side. That is, the basic system is strong and large changes may not always be needed in any one policy area. Much of the needed change will occur naturally as the result of market forces responding to the likely coming shortage of labour.

On the other hand, retirement patterns are deeply entrenched in the culture and are re-enforced directly and indirectly by many policies. As well, the goal is a tricky one — to both (a) lengthen the time spent in work and learning by a reallocation from the ever-growing length of time spent in retirement and (b) to simultaneously encourage greater flexibility throughout the whole course of life. This suggests that the essential policy challenge may be to take coordinated supporting action on many policy fronts — including through policies that affect the retirement transition:

- By direct and indirect measures that affect the financial incentives to retire that flow out of the combined effects of taxes, transfers, and private pensions. The transfers include public pensions and a series of programs that provide income during the transition to retirement including Employment Insurance, social assistance, and disability benefits. It is often asserted, correctly, that there are no large incentives to early retirement in Canadian public pensions when compared with those in many other countries. However, there may well be a significant combined effect from all our public transfers — particularly as it relates to flexibility to leave work early — before the “normal” retirement age.
- By placing particular attention on registered pension plans. Private pensions linked to final salary may be a particularly large disincentive to working later in life. This means a heavy focus on the role of the tax system, which is the main policy lever on private pensions.
- By supporting efforts to improve workplace quality. Liking or not liking a job is a key factor in the retirement decision. Workplace quality appears to be closely related to health and health, in turn, appears to have a large effect on retirement decisions. These are issues that can only be dealt with at the level of labour force as a whole. Matters of health and satisfaction at work cannot be limited to older workers alone.

⁷³The health effects could work in several directions. Morbidity and mortality are related to socio-economic status, and one view is that later retirement penalizes people with lower socio-economic status — they may be less able to work longer for health reasons, and lower life expectancies mean that they may have less time to enjoy the retirement that they have partly paid for by pension contributions. On the other hand, there is evidence that passivity in retirement is unhealthy and that working longer would increase health for most. As well, there is a set of considerations around the linkage among health, workplace quality, and the decision on when to retire. Unfortunately, the data is not strong in any of these areas.

- By possible new policies that are directly aimed at encouraging later, gradual retirement — although the history of many new policies in this area has not been happy. Partial pensions, for example, have not worked well in other countries and have fostered a gradual transition to earlier rather than later retirement.
- By providing information, promotion, and human rights rules regarding mandatory retirement.
- By encouraging mid-career learning to prevent skills deterioration as people age and, especially, to enable the mid-career job shifts that are likely to be an important determinant of working longer. This is a central issue, as was recently highlighted by the Forum of Labour Market Ministers (2002).

The public is (almost) ready for change. Many interest groups are ready for change, particularly driven by concerns about future labour shortages. Repeated media stories about labour shortages and later retirement mean that the public is reasonably familiar with the need for reform. Indeed, the reforms will likely be smaller and less painful than are often anticipated. As stressed in the earlier chapters, the outcomes of reform seem to be win-win in many directions — but that is still a little in future. Today there is still a worry about lack of jobs. (From a public communications perspective, the workplace issues — will there be enough suitable jobs for older workers — must be a central part of the story. Life course flexibility and quality workplaces will be important elements of a policy package that can gain support from all demographic segments of society.)

Much of the needed work has already been done. Many of the basic facts and tools to support policy-making in this area are at hand. A number of useful studies of the problem are still reasonably up-to-date. Most recently, the Forum of Labour Market Ministers (2002) has issued a report on older workers. A major international comparative study on retirement (OECD, 2001 — which includes Canada — and in which Canada appears favourably) is still current. Further work in the OECD has examined the financial disincentives to work that arise from a combination of pensions and other transfers.

Modelling as a means of adding value. Perhaps the largest new gains in understanding that could emerge from this preparatory work might come from a comparison of the results of several kinds of modelling, using common assumptions and sensitivity analysis across the various models where appropriate. Examples are as follows:

- Many macro effects are best captured by macroeconomic “overlapping generations” models, where Canada has much expertise.
- Micro effects at the level of the individuals and families have been much more difficult to model well, but that may change in this time frame. Statistics Canada’s LifePaths micro-simulation model was designed for exactly this sort of application, but has not yet been sufficiently developed to be useful in studying the work-retirement transition (lacking critical data on earnings, pension income, and the effects of taxes and transfers). However, these data gaps are expected to be filled soon.
- An entirely different kind of modelling — calculating the financial incentives to retire as a result of different combinations of taxes, transfers, and private pensions — has considerable

limitations when taken in isolation, but could prove to be an important addition when combined with the results of the macro and micro models above.

These and other models could well be supplemented by using supporting information from underused data sources that can throw some additional insight on the work-retirement transition, including data on wealth, time use, disability, or the framework for Total Work Accounts developed by Statistics Canada to take both paid and non-paid work into account. These extensions could be of particular importance in examining the retirement decision from the perspective of Life Is Citizenship.

A risk with a quantitative approach is that the study will concentrate on those things that can be modelled and ignore the equally important things that cannot be easily modelled. The use of several quite different models reduces this risk, but only somewhat. The study must also attempt to assess the rough magnitude of softer effects, including the implications of greater working-life flexibility on health, on volunteering, on caregiving, and on subjective well-being.

Dividing the analysis at age 65. It would likely be easiest to divide the analysis into two: steps that would bring average retirement ages up to the normal retirement age of 65, and steps that would promote flexible working patterns after the age of 65.

6.3 Capacity building: Introduction

The following four sections will seem ambitious if read in isolation from the supporting argument in sections 4.5 and 4.6. What is outlined is a series of tasks that would represent a considerable extension of existing policy development and statistical capacity — perhaps an unnecessarily large extension if the goal were simply to make incremental changes to existing policy arrangements and to fill reasonably small statistical gaps. However, that is not the goal that is being addressed.

Rather, these sections assume that there is likely to be a serious policy interest in the middle-term in shifting to an evidence-based approach to social investment and human resources development policies — and to an evidence-based system of coordination, planning, and accountability that encompasses both orders of government, with a strong role for civil society. In this more ambitious context, the development work proposed here seems to be at an appropriate scale.

Indeed, in all the areas covered, Canada can build on often surprising strengths. Few countries are as well positioned to move as quickly as us in supporting the new directions.

6.4 Capacity building: The tools to support life transitions

Section 4.5 showed how active labour market programming could be transformed into new, powerful, “life-transitions support” programming. In essence, at the level of individual clients, it becomes possible to make specific calculations of the expected success of various types of intervention. System-wide performance would improve over time based on past evidence.

Box 6 in Section 4.5 describes the far-reaching effects of this new family of designs and why enormous progress has become possible only within the last few years. These new designs hold promise of revolutionizing policies that provide specific interventions that help people move from one life situation to another — from welfare to work, from a low-paying to a higher-paying

job, from unemployment to work, from work to learning and back to work, from unpaid to paid work, etc.

Developing the needed capacity is, of course, central to the continued success of the baseline Life Is Learning scenario. However, it also plays an important role in moving to the Life Is a Job and Life Is Citizenship alternatives; transitions of all sorts can be supported by the new tools.

Proposed action — complete the work of designing the tools to support life transitions

The central task is to restart and extend the capacity-building activities that were described in Box 6. The hard question is not about technology or about feasibility, or about the usefulness of the new life-course transitions program designs. That has already been demonstrated. The central question today is the practical one of who would take the lead in development? and who would finance it? If an independent agency is needed for privacy reasons as discussed below, then it should be put in place quickly.

Some considerations

Privacy concerns. Perhaps the largest concern about the earlier pilot work lay in the area of privacy. However, provided that privacy concerns are met directly in the basic design, there should be no inherent problem, as shown in Box 11.

Further extensions of the work: Calculating returns on investments in skills. Many elements of this new capacity to support life-course transitions can be potentially extended to support decision-making throughout all our education and training systems. The same techniques that allow calculations of expected success in making a specific transition (as in active labour market policies) could, in principle, allow the calculation of the expected consequences later in life of different mixes and sequences of education, training, and work experience. The major problem is not in the technology to make the calculations, but in the lack of basic data on how skills are actually acquired, used, and rewarded. Data needs are discussed in Section 6.3.

Improving the quality of evaluation and experimentation. The new life-transitions capacity works by comparing the situation of existing clients with past clients who received different interventions in similar circumstances, and by comparisons with the experience of members of the general public who were in similar circumstances but were not referred to an intervention. This approach to calculating expected success has the potential to produce evaluation results in real time that are at least as accurate as traditional comparison group evaluations that take many years to conduct. Indeed, because the historical records for the comparison group are so complete and lengthy, the new techniques should provide richer evaluations — possibly leading to a dramatically improved understanding of how policy really works.⁷⁴

⁷⁴The potential gains might arise because, as noted, the new techniques can take account of the sequencing of life events and program interventions — including the effects of transfers and taxes over the course of life. This is well beyond the power of today's evaluations and would allow the possibility of routine learning from natural experiments such as the effects of changes in tax and transfer policies, especially those that have different effects in different regions.

Box 11: Meeting Privacy Concerns in Life Transitions Support Programming

In essence, there are two kinds of files containing personal information:

- Type one relates to the information provided by the individual participant that is needed to administer the intervention — the usual demographic information, information to determine eligibility, about the nature of the training or other service or income support that was provided, and the difference that the intervention made in terms of subsequent employment status, skills status, earnings status, etc.
- Type two provides information that is used to calculate the probabilities of success of various types of intervention and is based on what has happened to people with different characteristics in the past. Type two files incorporate much of the information from the type one file, plus other information both about the individual participants and about the population as a whole. It is sensitive longitudinal information, meaning that it can contain records of earnings, employment, EI contributions, etc. for many years. Detailed information about non-participants is essential to calculations of expected success of any intervention. It is similar to the use of control groups in traditional evaluations and experiments.

Type one files could create a privacy threat only to the extent that there was an authorized release of information to people other than the participant or authorized program administrators. However, this is a routine problem that exists in any administrative program.

The real privacy issue arises only with type two files (and the match between type one and type two files) and only to the extent that type two files might result in the unauthorized use of information about identifiable individuals.

Solutions are quite possible since the uses of type two files do not require that individual records be identifiable.

There are at least three types of solution:

- First, the longitudinal data in type two files might come from surveys where the individual consents to have the data used for this purpose (after being rendered anonymous of course). However, taken in isolation, this would be an expensive, second-best approach that would require many years to build up files before they could produce useful results. Further, the match between outcomes and actual program interventions would always be problematic.
- The second approach would be to use mathematical procedures that use data from existing administrative files and surveys to calculate a set of hypothetical individuals that would have the same statistical properties as the real Canadian population. This completely solves the privacy problem and is likely the best long-term solution. However it is complex and is at the present borderline of technical capacity — although Statistics Canada's life-paths model operates on similar principles.
- A third, and possibly more satisfactory approach for the medium-term, would simply be to base type two files on actual administrative records or surveys (that is on real, not hypothetical people) but then have the files rendered anonymous before they are used for any purpose, such as matching with type one files. This requires an extra step, and cost, of having a separate agency that processes the raw data and renders it anonymous — even before its use by researchers. This final approach is similar to existing arrangements used by Statistics Canada to publish micro data from, for example, the Census and household surveys.

There might be other gains in the area of evaluation and experimentation by having a separate agency to manage type two files as suggested in Footnote 75.

It may be possible to go even further and use the system to similarly improve those evaluations and experiments that are based on more rigorous random assignment techniques.⁷⁵ Considerable development work would be needed to examine the merits of this methodology and to test operational feasibility — but payoffs could be very high indeed as noted in the preceding section.

6.5 Capacity building: A system of consultation, planning, and accountability

Section 4.6, which dealt with horizontal and vertical integration, explains why a strong statistical system, including data that measure outcomes, should lie at the heart of a new system of consultation coordination, planning, and accountability that encompasses both orders of government and the civil society. (Section 4.6 mentioned above stressed that this is a somewhat controversial proposal. It seems to be building a consultation system around a rather dull statistical compendium, with high level indicators simply flowing out of the statistics — as opposed to having a more newsworthy set of negotiated goals, targets, and performance indicators. However, the proposed statistical approach should be more attainable than the more traditional “goals and indicators” approach. More important, it is more likely to lead policy in the right directions. [That is, we have no good indicators at present for the most important new policy directions — such as social investment or life-course inclusion. Those indicators that are feasible today, and that could be negotiated, would put pressure on policy to meet yesterday’s goals.]

Proposed action

The outlines of the proposed system of coordination, planning, and accountability — based around a new envelope of social policies directed to economic well-being — are set out earlier in Box 9. Data, especially data on outcomes, is at the heart of the system. A relatively non-controversial first step would be to develop consensus on what statistics should be included in the new summary documents that are proposed in Box 9. That could get the process going. Subsequent steps of dealing with the substantive policy implications of those statistics could gradually emerge.

That is, the process of developing the consultation process and the development of the new data are closely intertwined. This section must therefore be read in conjunction with the following section on requirements to develop new knowledge.

Some considerations

Some practical examples and a federal commitment to data development would be the first step. Consultations about the statistics to be included in the summary documents would need to address the following issues:

- Which existing statistics and administrative sources of data (such as data arising from active labour market programming or income security data) could be used in the new documents?

⁷⁵This might happen if the participants to the experiment and the control group were both drawn from the type two file, or if both participants and people in the control group were subsequently added to type two files. The operational problems would be minimized if a separate agency were set up to manage type two files and to arrange for their use by third parties after being rendered anonymous. (See Box 11 for a definition of type two files.) Random assignment is a methodology where the experiences of people who participated in some program or test are compared with those of otherwise similar people who were, on a random basis, not referred to the interventions of that program or test.

This would raise questions of comparable definitions and classification systems, including issues of who should develop and maintain those standards.

- Which new data should be included and what analytic framework should underpin the data? Should it be based around social indicators and, if so, how are these to be developed? Should there be a more technical framework that provides a consistent base for subsequent analysis — similar to the framework that the system of national accounts provides for market-based data?
- What institutional arrangements would be needed to support the exercise, as set out in Box 9?

Efficient discussions of these items above, some of which are highly technical, would require the production of a paper that would assess possible options and provide practical examples.

As well, it would be hard to have productive discussions, even of preliminary nature, without a clear idea of funding responsibilities. All partners would be required to provide much richer data on the inputs, outputs and processes of their programming than is currently the case, and to produce it in a comparable manner. That would be neither simple nor inexpensive. Even more costly would be new data described in the next section, as would the development of the capacity to produce the outcomes data that was described in the previous section. Without a doubt, it would be expected that the federal government would play a large role in funding and collecting the new categories of data that will be required, particularly on outcomes.

Further, the very idea of putting education, labour market, and income security policies into the same economic well-being envelope is unfamiliar. Examples of possible ways in which the data from different sources might be put together would be helpful. Otherwise, the subsequent discussion could get bogged down in technicalities about the statistics and indicators, not about the real world situation that the statistics are describing. The next section discusses what needs to be done.

The first step could therefore be a preliminary federal position paper outlining its commitment to funding new data as part of its contribution to the new system, and suggesting options for conceptual frameworks for data development — including some suggested options for the kind of standard statistics on inputs, outputs, and processes that all participants in the system would be required to produce.

Multilateral process is necessary. Equally, it would be important that this document set out general proposals and options for discussion and not be a federal *fait accompli*. The system will be successful only if most parties share ownership for its content and success — including its development.

Therefore, a second stage might be a process that developed detailed options for collecting the data and for the process of consultations on the various summary documents based on the data. There are many possibilities. A special task force of experts might be created to do this, perhaps reporting to both orders of government. The task force could consist of people assigned by the governments — or, perhaps better, it might be an independent commission — since that might facilitate contact with civil society and with the social partners. Another possibility might be to create a prototype that could be developed by a limited number of partners who wished to participate (perhaps the federal government and several provinces).

We can build on existing strength. The process, once launched can build on considerable strength:

- HRDC has many comparative advantages. It has a broader mandate than counterparts in most other countries and has played an active role in applied research related to skills, including funding data development.
- Compared with many of their counterparts, provincial education policy-makers have taken a broad view, working closely with each other and with Statistics Canada in comparing performance not only in the education system itself, but also the performance of the whole lifelong system. Private sector leadership has also been strong, as witnessed by the role of the Conference Board of Canada in profiling the skills needed in the workplace.
- Canada took the lead in working with the OECD and others to produce the most important direct measures of skills to date, including adult literacy, life skills, and student achievement. Statistics Canada is an acknowledged leader in the field.

Getting the scope of the exercise right. The scope of the exercise — social policies that support economic well-being — corresponds well with the mandate of HRDC — encompassing income security, learning, and labour market integration. If the scope of the data-gathering and consultation processes is kept to this envelope of policies, it will mesh reasonably well with the present evolution of our governance structures at the federal level — and these are significantly more advanced than in most other countries. It also means that the federal government will almost certainly have to take the lead in funding and collecting the new data, although ownership for deciding on which data is to be collected must be shared by all participants. There are analogies in the area of health and education data.

More specifically, the intent would be to have a consultation, planning, and accountability process that included all economic well-being policies, whether or not the programming is within the direct mandate of HRDC or the federal government. That is, provincial education and service delivery policies would be included, as would be related tax policies (including, for example, tax support for private pensions and the child tax benefit.) Also included would be policies for children and older people, as well as the working-age population that is the prime subject of this paper. A life-course approach precludes dividing the policy envelope on age lines.

Such a scope, while manageable, would not be completely satisfying from a theoretical perspective. It excludes health (and the determinants of health and well-being are closely linked), crime, and safety. It likely excludes long-term care — even though that is a key emerging policy issue. It might exclude housing — although housing and living arrangements are so intertwined with topics within the envelope that some means might have to be found to include them. Over time, the scope might evolve to include some of these other areas, but the economic well-being scope is already a very ambitious starting point.

We can perhaps borrow from experience in the area of health. While policies to support economic well-being are very different from those that support health, it is likely possible to learn from the much longer experience of co-operation in the area of health information. It was possible, for example, for the federal and provincial governments and the private sector to set up an external body, the Canadian Institute for Health Information, to carry out some of the needed information functions. (As noted earlier, it is possible to imagine the eventual emergence of two

large evidence-driven consultative systems in the area of social policy: one focusing on health and the other on economic well-being.)

Possible contents of early versions of the summary documents. The data to support the system of coordination, planning, and accountability would eventually be drawn from the database described in the next section, although a long transitional period would be needed as the new data was being developed.

Since the database could generate an infinite number of statistics, an early task would be to decide on what data should be highlighted in the summary presentations. An ad hoc, evolutionary approach⁷⁶ seems to make most sense in deciding on the data to be included in the summary documents referred to in Box 9. Perhaps some variant on the Index of Economic Well-Being (as in Chapter 2) could be included. It is very much a reflection of existing income-based, point-in-time policies. We are moving away from those, but they still represent today's reality. The Index of Economic Well-Being could be supplemented in various ways, particularly by developing an evolving set of new time-based indicators and by providing data on sub-populations such as children, women, and the groups that are at risk.

These indicators would evolve over time. Indeed, consultations around what indicators⁷⁷ should be included in next year's summary document might provide a reasonably non-threatening agenda that would help build confidence in the whole system of coordination, planning, and accountability described in Box 9.

6.6 Capacity building: Developing the knowledge base

Much better data are needed to support the policy directions described in Chapter 4. Section 4.5 argues that we will make little progress in investing in human capital, skills, and lifelong learning unless we learn a great deal more about how skills are acquired, used, and rewarded. Section 4.3 describes the need for new longitudinal data that follows people in the transition from work to retirement. And sections 4.6 and 6.5 above, explain why data should be at the heart of new systems of planning, consultation, and accountability.

All the scenarios — Life Is a Job, Life Is Learning, and Life Is Citizenship — require significantly improved data, but with somewhat different emphasis in each. Life Is Citizenship would, for example, place more weight on information about non-market activities. In the initial planning stages, it would be wisest to cast the statistical net wide — to develop a framework that is consistent with the needs of all three scenarios.

⁷⁶The alternative, which is discussed in section 4.7, would be a system that is driven by performance measures or social indicators. These are a limited number of high-order measures that, taken together, are intended to show whether the system under review is getting better or worse. With an indicators approach, it is important to pick the right measures, since they are intended to last a long time. (All too often with indicator-based approaches, the only data that is consistently collected is data that directly supports the indicators — making it difficult to change the indicators without loss of all-important time series.) Sole reliance on such an indicator-driven system would make no sense in the area of economic well-being policies, where the indicators will not be stable; both the data and the policies are in a state of evolution. However, ad hoc social indicators could be a useful supplement.

⁷⁷As noted, a consistent time series is important. However, if there is a strong underlying database, consistent time series can be produced for virtually any indicator. Hence, there is not a problem of consistency when adding and subtracting specific indicators.

Proposed action

As discussed in the preceding section, an early priority would be the development of an initial federal position on the new data collection it would be prepared to fund, together with a description of the general framework that could be used to underpin the data. This federal position could be developed in a number of stages, consistent with the consultative process discussed in the preceding section.

Some considerations

Development of skills and learning information will be a central challenge. A much heavier investment in skills and learning information will be needed if we are to sustain a learning agenda. Much of this is laid out well in Canada's Innovation Strategy paper, *Knowledge Matters* (HRDC, 2002).

Developing the information will be difficult and costly — even with Canada's considerable comparative advantages in the area. A good start has been made in measuring some skills in a consistent manner as part of the adult literacy surveys. However, a good deal more development work will be needed to measure a wider range of skills in a comparable fashion and to understand how they are acquired. As well, it will be necessary to find new ways of measuring how skills are actually used in the workplace, and in other domains of life.

One problem has been a fragmented approach to defining information needs and opportunities. The topic has been approached from many perspectives — from prior learning assessment, to measuring educational achievement, and to building skills standards into job and occupational classifications. An initial step might therefore be to identify a process or mechanism that can build a consensus around data development priorities for skills and learning information. It could identify gaps and examine alternative institutional mechanisms for filling them. Indeed, HRDC is already planning to explore institutional options.

We can borrow some experience from other countries, particularly in measuring the transition to retirement. Information that tracks people over the course of life is central to the new policy directions. Canadian longitudinal data sources are reasonably rich compared with many other countries — although there is a serious gap in one of the areas most crucial to policy-making: the transition from work-to-retirement. The American Health and Retirement Survey, which also includes asset data, is a useful model — and one which other countries are now beginning to follow. We could borrow the best parts of that international development and introduce a comparable survey here.

In some cases, it is a matter of more frequent collection. In some cases, we do know how to gather the data, but we do not collect it frequently enough or link it to related data sets. From a policy perspective it is consistent trend data that is most useful — policy action depends heavily on whether things are getting better or worse.

Wealth data at the level of individuals and families is collected very infrequently in Canada, for example. That will be a big gap as we shift to more asset-based policies.

Similarly, time-use data is critical to a life-course perspective with its focus on the allocation of time to different domains of life. Statistics Canada has shown great foresight in periodically including a time-use module in its General Social Survey. However, time use data collection needs to be greatly expanded, with more emphasis on comparable time series and with consistent

time-use modules being introduced in longitudinal surveys, or in surveys of business establishments (to measure trends in what workers actually do on the job — how they are utilizing their skills.⁷⁸)

Today we are familiar with the idea of developing a standard block of socio-economic and demographic questions — on age, educational status, employment status, gender, etc. — that can be used as modules (with differing levels of detail) in a series of surveys on different topics. What is required are similar modules covering assets (especially, but not only, skill assets) and time use.

A good conceptual framework for data development is at hand. For many decades, there have been discussions on the best way of organizing and presenting social data, but without any satisfactory resolution. This reflected a lack of consensus on the future directions of social policy itself. Longer-term directions can now, however, be seen with some clarity.

All three of the future scenarios described in the last chapter placed heavy emphasis on a life-course perspective, focusing on: 1) the transitions across various stages in life; 2) the balance of time spent in the main activities of life — certainly including work, learning, and leisure and, in the case of Life Is Citizenship also in caregiving, unpaid work, and community activities; and 3) the full range of resources (income plus a variety of assets) that support people in making these transitions and their effects on social inclusion over the course of life.

It turns out that these considerations point to a conceptual framework for data development that is surprisingly straightforward, at least in principle. Part of the system would consist of the usual expenditure and process information — describing policy interventions, their costs, the characteristics of recipients, etc. What is new would be a system of time-based accounts⁷⁹ focusing on individuals — including those who are affected, or potentially affected, by the policies.

Time-based accounts would support all the new directions discussed in this paper and, because they would be consistent with all three scenarios, the system should be quite stable over time. Time-based accounts would centre on individuals — with the possibility of producing consistent data for different time periods (how individuals allocated their time yesterday, last year, or over the whole course of life). The periods of time would be coded as to

- the activities that took place in that time period (as with existing time use surveys);
- the monetary value/cost associated with those activities that are market-based (e.g. earnings in the time that is worked, or receipt of a transfer, or the cost of social services that are professionally provided) or whose monetary value can be similarly calculated by analogy to market-based activities (such as providing or receiving unpaid services). These monetary data would allow a linkage to the system of national accounts and to data on public social expenditures and investments;
- the skills that were acquired and used;

⁷⁸The feasibility of measuring skills directly in a survey of businesses is being considered.

⁷⁹Time provides a stable basis for measurement. It is even more fundamental than money, which is the basis for most economic statistics. There are always 24 hours a day, and a known number of days in a year or a lifetime. And time-based measures can always be converted into money-based measures where this is needed. More problems arise in associating activities with periods of time since people routinely undertake some activities simultaneously (e.g. ironing and watching TV), but there are ways of dealing with this, such as coding primary and secondary activities.

- the spaces and the social interactions that occurred, as with some existing time use surveys. This would provide a basis for collecting detailed consistent data on social capital (which is based on an analysis of networks of contacts and interactions). Note also that a combination of the skills questions above and these “with whom” questions would provide the basis for an analysis of the interaction between human and social capital;
- perceptions of well-being during that time;
- obstacles faced in carrying out those activities (as in many surveys that measure limits on daily activities that arise from disabilities, etc.), thereby allowing analysis of at-risk and vulnerable groups; and
- the usual range of demographic and socio-economic variables.

Developmental work should be a priority. There would be many complexities in fleshing out the details of this framework. However, the task warrants high priority so that, when new surveys and administrative records are designed, they fill gaps in the framework in a consistent fashion.

The development of such conceptual frameworks would be both complex and highly technical. Unless examples and practical prototypes were available at the outset, the process of consultation described in the preceding section could get bogged down quickly.

It would require some years and much effort to build up a full database to support this framework. It would take still longer to build up time series that would allow us to measure trends. However, quite a lot of information is already available and much of it could be assembled using new micro-modelling techniques. A respectable start could be made within the medium-term time horizon being considered here.

6.7 Capacity building: Innovation in the methods of intervention

The first section on capacity building describes a capacity for learning from past experience — of applying knowledge derived from an examination of the interventions that worked best in that past. That capacity is of limited use in cases where there is no previous experience. What is needed is a complementary set of pilot studies and experiments that would

- assess what kinds of new mechanisms work best (e.g. what kind of training? information? service interventions? income support? — and in what mix?); and
- transfer the knowledge gained to mainline interventions, ideally using the Life Transitions Support database as the mechanism for making this transfer.⁸⁰

Proposed action

Earnings supplementation seems to be the major topic to warrant further experimentation now. Earnings supplementation is a key component of make-work-pay policies⁸¹ and is critical to

⁸⁰Footnote 75 suggests that this transfer of knowledge could be almost automatic if the experimental activities used the Life Transitions Support database as the source of sample frames or if the results of experiments were transferred to that database.

⁸¹These are policies that are intended to ensure that working, even in low-paying jobs, has a higher economic benefit than not working and drawing social benefits. Quebec has long experience of such policies. They are a main feature of the Canada Child Tax Benefit. There is growing experience with tax-based systems in the United States and the United Kingdom.

moving forward in Life Is a Job directions. Small-scale experiments to test behavioural responses in lifetime accounts would also have a payoff.

Some considerations

A good start has been made. The three major earnings supplementation pilots that have been undertaken in Canada demonstrate the importance of such experimental studies. Outcomes were far from clear in advance. For example, we now know that earnings supplementation works in some cases (welfare mothers) but not in others (EI repeaters) and works best (at least for some clients) in conjunction with other activation techniques. Some provinces, Quebec in particular, are considering extending the approach to other client groups.

There is, therefore, likely much to be gained by systematically extending experimentation with earnings supplementation to other groups — possibly concentrating on the five most at-risk groups.

Experimentation to test behavioural responses to lifetime accounts. Many features of lifetime accounts will require much testing before being fully introduced. For example, it would be important to know the size of the government contribution that would be needed to encourage lower-income people to contribute to an individual learning account. Some work along these lines is underway and, in the future, lifetime accounts are likely to be fertile ground for a mix of pilot studies and newer low-cost experimental approaches.

6.8 Strategic studies: Re-thinking social inclusion

The next sections turn to more familiar strategic policy initiatives, or think pieces, that are associated with medium- or long-term policy reviews. The first, in this section, asks how we can best organize the policy agenda over the longer-term in order to address the needs of people who are at risk of being excluded from mainstream society.

Section 4.4 outlined the need for a new language to support the concepts of social inclusion over the course of life and to explore new ways of organizing policies to meet the needs of the excluded and those most at risk of social exclusion. This is a thorny area. Today concepts of income poverty, market inequality defined in terms of income, and point-in-time income distributions are so entrenched in our language, our analytic tools, and our statistics that it is difficult to grasp the full implications of the new perspectives.

The new perspectives seem to point to quite different approaches to policy than those that we now follow — ones that would differ depending on whether we were to pursue Life Is a Job, Life Is Citizenship, or Life Is Learning directions. There is a real need to sort out what is genuinely new, and whether the implications for policy are as radical as they first appear.

Proposed action — a think piece that explores the implications of quite different approaches to policy

A strategic planning document (or series of documents) that clarifies these issues is needed. It might include an introduction that defined concepts (social inclusion, equity, equality, choice, security, cohesion, poverty, targeting, universal, etc.) in a rigorous way. It might illustrate the difference between old and new concepts with data, where this is possible — for example, by comparing numbers of people who are poor using point-in-time measures and those who might

be considered as being at risk of lifetime social exclusion. If the definitions differed between, for example, Life Is a Job and Life Is Citizenship policy worlds, then that would be clarified.

This introductory document, or section of a larger report, could be followed by an analysis of the policy implications of shifting to social inclusion over the life-course following the quite different policy tracks that were identified in Section 4.4:

- Via the life-course perspective itself

(This track would assume that existing policies would continue unchanged except for the shift to life-course perspectives. It would examine, for example, how eligibility criteria — or benefits — might change as a result of shifting from a point-in-time approach to a life-course approach. It would examine the implications of the fact that life-course policies are likely to be more strongly based on individuals — and less on families or jobs. It would examine the implications of the likely greater focus on preventative measures at each stage of life, including an even greater emphasis on early childhood development.)

- Via commonalities

(This track would examine the implications of gearing policy to those things that people in at-risk groups hold in common. Lack of adequate earnings, the basis for most of today's policies, remains an important commonality. However, there are others that may become as important. Living arrangements — especially living alone or only with young children — is one. Lack of strong parenting skills or depression among parents of young children may be another. Lack of generic skills or access to social capital may be another common factor. Others may be lack of financial assets or suitable housing. One could imagine a world where separate programming [including from different agencies] existed to deal with each of the common problem areas — coordinated through some kind of case-manager in those [typical] cases where people faced multiple problems.)

- Via legal commitments

(This normative track would assess Canadian performance and challenges ahead in light of evolving commitments as expressed in human rights legislation, international conventions, and related commitments.)

- Via a focus on areas where disadvantage is greatest and most likely to grow

(This track would examine the implications of gearing both preventive and remedial policies much more directly on those areas where disadvantage is greatest [the homeless, those with drug addictions, and those who are severely disabled] and most likely to grow [e.g. possibly polarization and lifetime exclusion from good jobs and from lifelong learning]. In other words, this would be a two-tiered system with separate strategies for the “regular” excluded and for “extremely” excluded.)

- Via their increasing concentration in well-identified at-risk groups

(This track would examine the implications if the five high-risk groups were used as the primary [or only] funnels to reach high-risk people — including for preventive as well as remedial measures. Who would win or lose compared with the present approach of identifying remedial measures based on current income status? What would be the implications for other groups of interest such as children? [Recollect that most at-risk children are in the five groups, when being at risk is measured in terms of poverty. However, the real vulnerabilities faced by children are not, in fact, strongly related to the income status of their parents.])

- Via the role of the caregiver and service provider

(This would be a supplementary study that would examine the implications of social inclusion policies on the role of caregiving and service provision [including devices that provide a more equal playing field for those with disabilities]. It would explore the role of greater life-course flexibility on family caregiving. Mapping overall caregiving and care-receiving — not only for at-risk groups but also for children and the frail elderly people — might result in interesting insights.)

A final part of the think piece would compare the approaches above and draw conclusions.

Some considerations

The work should concentrate on new goals, not those of today. As noted, it is hard to escape today's language and concepts. For example, using today's approach to income security, the fourth track above that focused only on groups at greatest risk might seem to be inappropriate. Most of the people in the at-risk groups are not poor. And there are still many low-income people outside the five groups, even though they are spread very thinly. So why would we even consider moving from the present approach of targeting all low-income individuals,⁸² regardless of whether they belong to a high at-risk group?

The answer is that, in the future, we will be interested in social inclusion over the course of life, and today's point-in-time low-income measures may not always be a strong proxy for this. We know that this is true for children, where point-in-time poverty is a poor predictor of vulnerability. Membership in the at-risk groups, which seem to reflect persistent disadvantage of various types as well as low-income status, may be a more useful tool in identifying social exclusion. We do not know this, however. It may be that vulnerabilities, especially among children, are widely scattered throughout the population and can only be reached by universal tools. The sample sizes in existing data sets, and the lack of longitudinal data, means that we must plan in the face of much uncertainty. Hence, the proposal is to explore possible new approaches on several different tracks. Common themes may well emerge that will provide new insight.

⁸²In fact, there might be some merit in shifting to using the at-risk groups as a screening device, even given today's concept of tackling point-in-time poverty — although this would require study to make sure that the negative consequences were manageable. For example, effectiveness might be greatly improved if active labour market policies were dropped as a separate entity — to be replaced by five separate activation policies directed to each of the high-risk groups. Past debates about unemployment insurance and its developmental uses (and comparable debates about social assistance) might have been far less controversial, and the resulting programming more effective, if there had been broad consensus that all workers were entitled to basic insurance but that the developmental uses were confined to the five well-defined at-risk groups.

Regional winners and losers are important. The outline of the above proposed work concentrates on policy implications at the level of individuals. However, there may well also be regional winners and losers that would need to be taken into account in the strategic planning exercise.

The existing literature is helpful. There are currently many good studies dealing with particular at-risk groups — Aboriginal peoples, people with work-related disabilities, children at risk, and so on. Typically that literature already takes a life-course, human development, and social inclusion approach. (Indeed, that literature is often at its weakest when an attempt is made to force these broader concerns into the current policy language of income equality at a point in time.⁸³) The strategic exercise proposed here should draw on that literature, not replicate it.

6.9 Strategic studies: Thinking about assets

A parallel piece to the study above would deal with the consequences of moving to an integrated policy envelope that is based on “income plus a range of assets over the course of life.” This would replace existing human capital and income-at-a-point-in-time policies.

Proposed action — a think piece on the role of different assets and how they could work together

This strategic document would provide an analysis of how various kinds of assets play a role in social cohesion and economic well-being, and the potential role of government. Perhaps most important it would examine how various asset-based policies might work in co-operation with each other and with other policies.

Some considerations

This would be a difficult, ground-breaking study. Even a solid review of the literature on the subject would be a welcome first step. But one might be able to go considerably further.

Although it is often not strong, quite a lot of literature exists on some assets taken separately. There is very little on how various asset-based policy elements might work together. Data is also a problem. For example, there are only periodic surveys of the financial assets held by families; happily one of them is recent. In other cases, there is virtually no data at all.

In the circumstances, the study would likely be easiest to carry out if it reviewed the situation asset by asset — human capital, financial assets, housing assets, information resources, community resources, social capital, etc. The review could show how these assets now entered policy-making, with comparisons to other countries. Ideally there could be some reasonably rigorous comparisons of the factors that affect the level and type of investments, the changing characteristics of investors, the various immediate, long-term, and indirect consequences of those investments, how the assets deteriorate over time, trends in the stock and quality of the assets, etc.

⁸³For example, the richness of the literature is sometimes trivialized by setting goals too narrowly — say in terms of “eradicating poverty” with poverty defined in terms of point-in-time income status. This can lead to an overemphasis on quite arbitrary statistical measures such as absolute or relative poverty lines. The use of such a narrow concept is entirely understandable, because it matches the concepts of decision-makers responsible for today’s point-in-time income security programs. However, it also risks taking us away from the real goal of social inclusion — reducing the multiple institutional and environmental barriers that arbitrarily prevent people from living up to their potential, from the opportunity to participate fully in society.

This could be followed by a section that attempts to think through the implications of different types of assets when used in combination.

Housing assets and information assets may prove to be some of the most interesting and difficult topics to deal with. Both touch a great many dimensions of social policy:

- Housing has obvious links to homelessness and affordable housing, but is also key in providing security in old age, and in independent living and long-term care issues. It is central to discussions of living arrangements (which are strong determinants of social inclusion and economic well-being) and geographic spaces, including urban neighbourhoods and civic infrastructure.
- Information is a powerful resource and should be thought of as a separate product line of government. More than income, it might be thought of as the universal social policy product. The interest arises from the explosion of our capacity to produce and transmit information that could be of central importance to social cohesion and well-being, as discussed in Section 4.5.

Social capital, which is discussed in the Appendix, also holds considerable potential for policy, although research is at a very early stage. The emphasis here is likely to be on the kinds of data that are needed to bring this topic to a state where policy implications can be taken more seriously. The proposal for time use data above would be a good start.

Financial assets are, of course, more familiar territory — with their role in means-tests and familiar debates about wealth and inheritance taxes. However, even here there is much that is new, as in proposals for the creation of various endowment and stakeholder funds. These are, however, perhaps better discussed in the project on lifetime accounts below.

Asset-based considerations also arise in a number of special policy settings, such as community economic development, that would warrant some brief assessment.

6.10 Strategic studies: The parallel universe of lifetime accounts

The life-course and assets perspectives section described why lifetime accounts hold so much attraction. Their design corresponds closely to the desired future directions for economic well-being policies — especially the shift to asset-based and life-course perspectives. As well, they provide a strong tool for examining the practical differences of moving in the directions of Life Is a Job, Life Is Learning and Life Is Citizenship. Indeed Table 3 illustrates the important differences among the scenarios by comparing their approaches to lifetime accounts. Lifetime accounts could be important in all three views of the future, but they would be very different kinds of accounts.

Proposed Action — a think piece assessing the main alternatives

A first step would be the preparation of a strategic planning document that explored alternative ways of using lifetime accounts. This would include:

- A literature review assessing main proposals from a Canadian perspective — mandatory individual retirement accounts; learning accounts in the area of skills; asset-based welfare schemes such as endowment funds set up for all children on birth or on leaving school; the developmental accounts that are being piloted in the United States and *learn\$ave* in Canada;

hours-based accounts that allow saving up time for sabbaticals and learning,⁸⁴ asset-based community economic development, and proposals to replace unemployment insurance with individual employment accounts.

- A review of the key issues — transitional financing and the double payment problem, issues surrounding taxation, investment and overhead costs, issues related to restrictions on uses, how a range of traditional policy instruments, such as labour market regulations would need to be adapted to support lifetime accounts, etc. The list of dark horses and contenders in Section 3.6 provides a checklist. For example, how would the following issues be impacted by a shift to lifetime accounts: the social economy, community development, social capital, interprovincial differences, and so on?
- An assessment of possible effects on various groups — on people with different degrees of attachment to the labour force, on families, on men and women, on children — showing winners and losers in different time periods, with an emphasis on effects related to social exclusion and on a comparison with more familiar “ideal” approaches such as guaranteed income schemes that are based on older concepts of income poverty at a point in time.
- A review of the most likely scenarios for gradually introducing such schemes in Canada.
- A review of the many gaps in knowledge that would need to be filled in order to begin practical design work — and options for filling those knowledge gaps.

Some considerations

An underlying concern — new designs may be needed sooner than expected. A worry is that our expectations for economic well-being policies may be outstripping the boundaries of existing policy designs and programming structures. The tax-transfer and learning systems have been wonderfully adaptable, but at a certain point it might not be possible to stretch them sufficiently to encompass the newer policy directions without badly distorting them. The dissonance between policy structures and policy intentions may add to public distrust of government.

Existing mainline policies are about income security and spending on skills acquisition at a point in time. The newer life-course, investment and asset approaches may ultimately require quite different policy designs. It therefore makes sense to understand the structure of such a transformed policy system and how a wide range of policy issues would fit. Such an understanding will help provide policy coherence in the medium-term — even if the transformation to the new designs was very gradual. It might even point to possible ways of introducing the new approaches more rapidly — should that become a priority on the policy agenda.

Lifetime accounts also provide a useful lens for analysis. The lifetime account concept provides a practical way of examining a large number of thorny policy issues in an integrated

⁸⁴Complementary or substitute accounts could be built around time rather than money. Sabbatical leave is an example. Imagine a world where effective average retirement ages increased by two years. One of those years might be spent in working and responding to higher labour demand — that is, to the fixing the producer-consumer balance problem. The extra year might find its way (indirectly) into an account for each employee that provided an entitlement to a year’s sabbatical-type leave, which would be portable across job changes. In a simple version, the employees would support themselves financially while on sabbatical while the employer would bear the cost of keeping the job open. There would be, of course, countless variants.

fashion — allowing a fresh, future-oriented perspective. How can instruments such as Employment Insurance be adapted to new kinds of work and new patterns of work over the course of life? How can make-work-pay and family-friendly orientations be best combined in the tax-transfer system — and how can universal tax-transfers work in harmony with specific discretionary activation policies. For example, how should the Canada Child Tax Benefit and in-work benefits such as those tested in the Self-Sufficiency Project fit together? What are the best options for financing adult learning and how do these interact with other goals including redistributive goals. How can assets be incorporated into public policies that have been dominated, until now, by income considerations?

So what's the catch? If lifetime accounts have such great attraction, why do we not already have more of them? In practice, lifetime accounts are no panacea:

- Their appeal is most evident when we compare a fully mature system of lifetime accounts with today's mature social policies. However, it takes a long time for systems to mature and it is typically costly to move quickly from one mature system to another.
- Major issues of fiscal federalism are likely to be raised.
- As noted in Section 4.4, there are many social problems that can be no more easily addressed by lifetime accounts than by existing policies.
- We also lack information on the behavioural consequence of many design features.
- There could be some loss of social solidarity in risk sharing,⁸⁵ although that would depend greatly on the specific design features of the account and the way it was taxed.
- Certainly there would be major changes in traditional approaches to risk-sharing. In other words, the calculus of winners and losers would change in complicated ways, depending on design options.

Lifetime accounts are, therefore, more easily introduced as new initiatives that supplement, not replace, what is already there. RRSPs are an example, as are learning accounts. However, using lifetime accounts to replace existing policies is certainly possible as well, despite the difficulties of designing and financing a complex transition period. Canada has a good record in introducing major changes gradually, often through incremental changes that seem small when examined in isolation.

The role of lifetime accounts in the very long term

It is often useful to have some ideal in mind when thinking about the long-term directions for policy — a view of the kind of system that we are trying to ultimately put in place. In Canada and in many other countries, the idea of basic minimum income, provided as a demogrant or negative income tax to all citizens regardless of work or family attachment, has proved to be a powerful

⁸⁵This fear of a loss of social solidarity is based on the assumption that lifetime accounts represent a shift away from traditional pay-as-you-go financing with a large element of redistribution and collective risk-sharing — and towards individual financing, with individuals protecting against risks over their own lives (and less sharing of the risks faced by their neighbours). This is a valid assumption for many of the most commonly discussed lifetime accounts but, as the text notes, this by no means inevitable. Some designs have a large collective component. Equally, life-course perspectives seem inherently more consistent with social inclusion and solidarity than do point-in-time perspectives. It is hard to generalize without looking at specific cases.

ideal, with proponents at many points along the political spectrum. It would reduce complexity, support a more active citizenship, and eliminate many of the income and employment traps that now exist. In the Canadian case, it would also provide a clearer relationship between the federal government and citizens. It has been well understood to be unaffordable in the present, but it still has provided a helpful long-term vision for many. Indeed Canada, more than many countries, has already put many of the elements of a guaranteed income in place.

What would be the counterpart, when one looks beyond the income security system, to our new envelope that includes employment and welfare services, and education and learning services as well as income support? For some, a set of lifetime accounts or vouchers would seem to fill this role. To date that is beginning to happen only among people in a quite narrow band on the political scale — mainly people with a strong individual-choice, market-oriented view of desirable policy directions. However, a much broader base of support could well emerge, particularly if lifetime accounts were combined with compatible versions of more traditional basic income schemes. The concepts are ultimately compatible. (If people had a certain basic income that was provided to them on a guaranteed basis each year, they could use it as collateral to obtain a loan — converting it into something like a lifetime account. If people received a once-in-a-lifetime payment into a lifetime account, they could convert it into an annuity — replicating the features of a basic income.) However, if both were used in harmony, it might be possible to find an even more rational balance among income supports over the course of life, investments in human capital, and a more diversified use of a wider range of other assets and resources.

A full system along these lines would be no more affordable or attainable today than is a full guaranteed annual income. However, thinking about how such a system might ideally work might well allow a clearer understanding of the practical transitional possibilities that are open in the medium-term.

6.11 Conclusion: Preparing for a virtuous circle ahead?

The proposals in this chapter have been cast quite specifically — setting out different documents that might be produced or specific kinds of new data that should be collected. However, these specifics are only a device to promote discussion, to give people something to shoot for as they start the more careful planning of next steps. It should not be hard to make major improvements.

The chapter is, however, on more considered ground in its formulation of the overall shape of the work that is proposed. To summarize, the proposals would

- support the most important new items that are likely to be on tomorrow’s policy agenda, as identified in the fourth chapter — including preparing the background information to be able to act quickly on what is likely to be the most urgent priority — reversing a decline in the ratio of producers to consumers through later effective ages of retirement;
- provide future policy-makers with the flexibility to move in a wide range of directions — including a continuation of existing Life Is Learning directions or a more fundamental shift towards major alternatives in the form of Life Is a Job and Life Is Citizenship;
- provide those policy-makers with tools to move in any of these directions either gradually or by larger reforms, as the conditions of the day will dictate.

Box 12: Is a Virtuous Circle on the Horizon?

The story starts with the likelihood of a large, demographically-driven change in the percentage of the total population that will be at work producing goods and services. This is a fundamental determinant of our average level of economic well-being.

We will need to find more producers in relation to consumers. Encouraging people to work longer over the course of life is the most promising way of doing this.

However, working later is only realistic and desirable if there are good jobs for older people. Fortunately, the likelihood of such good jobs is much higher given the labour shortages that are likely to be associated with the retirement of the baby boomers.

Working later opens up the possibility of reallocating the leisure that has been concentrating in older years of life. Much of this reallocated leisure will go to more work, but policy can provide incentives for some of it to go to more learning in mid-life years which, in turn, makes working longer a more realistic and desirable outcome. With more learning, skills are not as likely to become obsolete as people age — and people will be empowered to make mid-career shifts to jobs that they will enjoy as they become older.

More mid-life learning also addresses the productivity gap issue. Increasing productivity is the second big way, along with more work, to increase average levels of economic well-being. And that learning is more likely to be effective as a result of the new empirically based tools for social investment that are highlighted in the paper.

Reallocated leisure from retirement also has the potential to be used to reduce work-related time crunches and free up time for other activities. More life-course flexibility in the working years can bring potential gains on many fronts: child care, elder care, cultural, and volunteering.

A more diverse life during a person's working life (say with more community involvement and more learning) is likely to result in a more diverse life in retirement. People rarely take on new activities, such as volunteering, when they retire — but they may well expand on the things they did when they were younger.

And reallocating leisure away from people when they are older does not necessarily mean much shorter periods of retirement. Large increases in the producer-consumer ratio can come from quite modest increases in effective retirement ages. As well, retirement durations are increasing as healthy life expectancy continues to grow. Health, in turn, improves with less passivity in older ages and a better work-life balance in younger ages.

Those most likely to be put at risk by increases in effective retirement ages are people who face persistent labour market problems over the course of life. However, these are also the people who are likely to gain most from

- the new policy emphasis on social inclusion that flows from the new life-course perspectives;
- the new tools for supporting effective life transitions that are part of the proposed package; and
- the improved coordination, planning, and accountability system that is also integral to the proposed work.

The future is inevitably uncertain, but the proposed strategy provides a good way of managing that uncertainty. A central focus on learning provides a cure for many ills, almost regardless of the socio-economic climate. A focus on life-course flexibility supports fast adjustment to new circumstances. The new empirical knowledge base will similarly allow policies to adjust more automatically and quickly to new situations.

That is, a new balance could emerge that simultaneously addresses economic competitiveness and social inclusion. That balance is, as the paper shows, consistent with changing public values and expectations. It provides fiscal gains and increased program effectiveness. The use of evidence-driven approaches to consultation, planning, and accountability will provide better management of an increasingly complex system of actors and jurisdictions.

Everyone seems to win. How do we account for such an improbable outcome? The answer lies in the likelihood of several factors coming together in a particularly fortuitous manner in this time frame:

- Favourable demographics should increase the demand for labour and alleviate traditional social problems centred on unemployment.
- We have a strong starting point, with Canada's social and economic house appearing to be in good order.
- We have a number of strong comparative advantages in key areas of policy development.
- Particularly important, there is the possibility of exploiting the huge untapped resource of time in older age groups.

The proposed work is extremely wide-ranging — covering several difficult strategic planning exercises, statistical development, the design of new policy capacity to support life transitions, mechanisms of coordination and accountability, as well as more traditional policy research around the work-retirement decision.

The proposal is ambitious, but the potential payoffs are also large, as shown in Box 12. Cast in summary form like this without the usual caveats, the contents of this box may well be thought to oversell the coming virtuous circle. And, indeed, the reality is that we can never be certain about the future.

Nevertheless, the signs of a positive environment for change are all there. There appears to be potential for a major renewal of the public policies that are addressed to economic well-being — perhaps similar in scope to the changes that took place in the years around Canada's centennial when today's welfare state was mainly introduced.

The challenges and opportunities are similar in most developed countries, but Canada is — as has been often demonstrated throughout the paper — in a particularly strong position to take action.

Appendix

Systematic Review of Future Trends

A.1 Overview

The Appendix examines likely future trends that could impact on economic well-being. It follows the same structure as in Chapter 2, covering the components of economic well-being: consumption, wealth, inequality, and insecurity. Each section discusses the possible pressures that the trends may place on future policy-making.

The material in the Appendix logically lies between the second and third chapter of the main text. Chapter 2 examined past trends, while Chapter 3 draws selectively from the material found in the Appendix in order to formulate a list of the big policy issues that are most likely to dominate a medium-term policy agenda. The material is in an Appendix rather than the main text because much of it will be familiar to many readers. There have been a number of excellent examinations of recent trends in the area of well-being. The Appendix borrows on these — but comes to some conclusions about policy implications that are at considerable variance from that found in much of literature.

Personal consumption is the first, and almost certainly, the most important of the determinants of economic well-being. Consumption reflects the size of the economic pie and that, in turn, depends on two factors:

- *The time that people spend in employment*, producing the goods and services that are the basis of consumption. Section A.2 shows that the dominant trend of past decades — an increasing percentage of the population that is employed — is unlikely to continue into the future. Section A.3 after that deals with the pressures that may change tomorrow's work-leisure balance. Policy could have a large impact here.
- *Productivity in the time spent in employment*. Productivity growth among those at work could offset the negative effects of relatively fewer people at work — at least at the aggregate level. Productivity trends themselves are briefly reviewed in the main paper,⁸⁶ while the Appendix discusses human and social capital, the main determinants of productivity within the scope of this paper.

Wealth is the second determinant of economic well-being. Here we look particularly at human and social capital, which are the main aspects of wealth that can be influenced by policies within the scope of this paper. The emphasis is on the role of human and social capital as determinants of productivity and of personal economic security, as well as on the sustainability of those stocks:

- Trends in the demand and supply of skills are discussed in Section A.4.

⁸⁶See Rao and Sharpe (2002), and Banting, St-Hilaire, and Sharpe (2001) for a review of current thinking on productivity.

- Section A.5 attempts to take a deeper look the demand and supply of labour by exploring the underlying story about skills and learning.
- Section A.6 discusses the immigration, internal migration, and job mobility aspects of human capital.
- The potentially central role of social capital (social networks) is discussed in Section A.7.

Economic inequality is the third component of economic well-being that was discussed in the second chapter, where distributional problems were seen as heavily concentrated in five groups:

- Section A.8 reviews the changing sources of inequality as well as some cross-cutting issues — gender equality, life-stage equity, and generational equity and equality.
- Section A.9 then turns to the five groups and explores the likelihood that problems will get better or worse.

Section A.10 deals with the final determinant of economic well-being — economic security. It suggests that concepts of economic security that are ultimately tied to a full-time full-career job need to be rethought. The new approach must take account of the insecurities arising from a variety of life risks — including family break-up, and health, as well as lifetime job insecurity.

The final section moves away from a discussion of the determinants of economic well-being and turns, instead, to a discussion of trends that might affect our future capacity to fund social policies. In particular, it looks at the effects of aging on public finance.

A.2 Total time that might be spent at work in the future

For decades employment trends have strongly supported economic well-being

The size of the economic pie depends on the percentage of the population of Canada that is employed and on their productivity in the hours they work. Productivity, which is discussed in the following section, receives much attention in the literature. However, the percentage of the population that is employed — producing the goods and services available for potential distribution to all Canadians — is equally fundamental, has been changing dramatically, and is surprisingly neglected. That percentage has grown because of

- demography — a growing percentage of the population is of working age;
- a dramatic growth of employment among women; and
- these have more than offset declines in the employment ratio for men (trends to earlier retirement were also dramatic — at least until the 1990s — and higher unemployment) and by youth staying longer in school.

What counts are total hours worked, but the trend has been in employment rates, not in average hours worked. The annual hours worked of those who are employed have been static, at least in recent decades.⁸⁷

Employment trends are likely to change, but by how much?

Employment growth has slowed somewhat in 1980s and 1990s, but is still very strong. This highly favourable position will change after 2010 or so, as a result of the retirement of the baby boom generation and the likelihood that employment will begin to fall as a percentage of the population — an enormous shift in the determinants of economic well-being if it happens. However, there is much uncertainty about future patterns. The three outcomes⁸⁸ shown in Figure 8 in the main text, which were produced by the OECD, reflect different, but quite plausible, assumptions about possible changes in effective retirement ages. Retirement age trends can shift markedly because of policy changes and the tightness of the labour market, with large effects on employment.

Canada compares well internationally

Employment growth as a percentage of the population has been much stronger in Canada than in most other OECD countries.⁸⁹ However, the outlook is a little less favourable than in the United States where effective retirement ages have been rising recently. As well, Americans work longer hours than Canadians.

Little differences among provinces

About the same percentage of the population is employed in most provinces, close to the Canadian average of 48 per cent in 2000 (52 per cent among men and 44 per cent among women). Newfoundland is the outlier with only 38 per cent employed (41 per cent among men and 36 per cent among women).

Potentially large pressures on policy

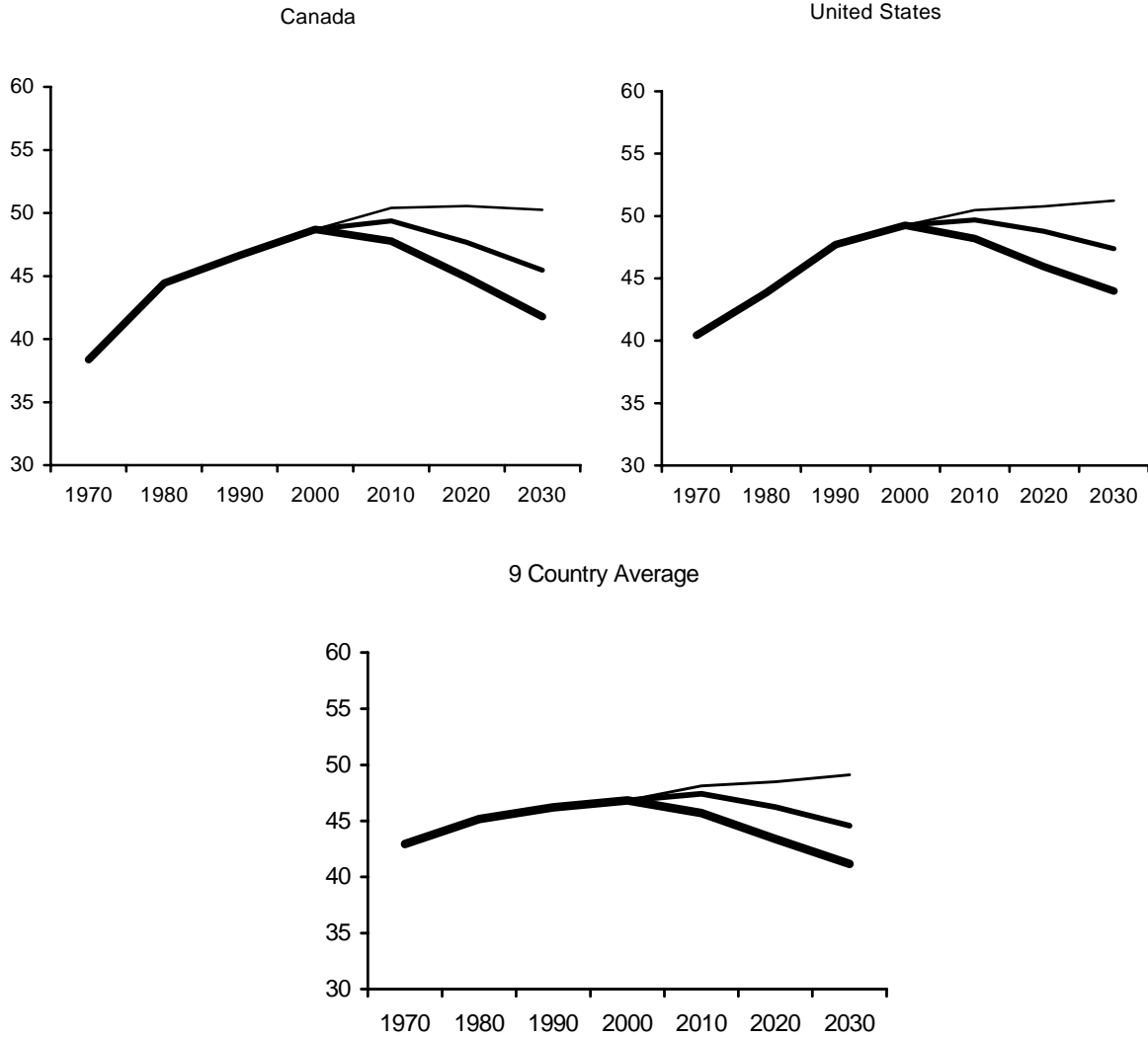
In summary, there could well be a large drop in the ratio of economic producers to non-producers. A large change in the trend of something so fundamental might well have large effects, direct and indirect, on social and economic well-being. Social inclusion is tightly tied to employment. The implications for a skills agenda or for immigration policy could be large, as could its effects on government finance and the crowding-out effects connected with pension costs. Even a levelling off in relative employment growth would represent a major change in Canada's socio-economic environment. Past success in achieving economic well-being is in large part the result of a steadily increasing percentage of the population that has been employed.

⁸⁷Hours have been steady on average, but behind that average there has been some hours polarization. In-depth analysis should focus on lifetime hours worked, not just years of employment.

⁸⁸The middle possibility is based on assumptions used in OECD baseline projections (see OECD, 2000a). The higher possibility assumes that the labour force participation rates of men in older age groups grows such that by 2030 it returns to the same level as in 1970. The lower possibility is the symmetrical opposite. The upper and lower bounds for women assume participation rates for older women that are five per cent higher and lower than the middle possibility.

⁸⁹The nine-country average is an unweighted average of Canada, United States, Finland, Germany, Italy, Japan, the Netherlands, Sweden, and the United Kingdom.

Figure 12: Employment Growth as a Percentage of Population, 1970–2000, and Three Plausible Outcomes for 2030



Source: OECD (2000a).

Notes: The middle possibility is based on assumptions used in OECD baseline projections (see OECD, 2000a). The higher possibility assumes that the labour force participation rates of men in older age groups grows such that by 2030 it returns to the same level as in 1970. The lower possibility is the symmetrical opposite. The upper and lower bounds for women assume participation rates for older women that are five per cent higher and lower than the middle possibility.

A large change in society does not necessarily require large changes in policy. Policy implications may turn out to be minor, or positive. The economy may adjust to the potential reduction in labour supply in ways that will be welcome — by lower unemployment and under-employment, later retirement and higher wages for lower skilled workers. Even a large drop in the employment ratio would not necessarily constitute a social policy problem. With

strong productivity growth, material living standards would still rise and total well-being could increase through more leisure.

Yet the policy implications cannot be ignored. The relative size of the employed population is not exogenous. It is very much determined by the incentives built into retirement income, skills and employment policies, and in workplace practices. Recent OECD studies (see OECD, 2001) have shown that, for all these reasons, the issue of the balance between work and retirement is moving to the centre stage of policy-making in many countries.

The OECD has also noted that policy-making in Canada may be lagging behind other countries in recognizing the importance of the work-retirement balance. In Canada this issue is usually considered as one element in a work-life balance policy agenda — where the main focus is on child care and gender equality, on the role of quality workplaces as the missing link in human resources policies and as main determinant of productivity and on reducing time crunches and thereby increasing health and subjective well-being. As recent work by the Canadian Policy Research Networks (Duxbury & Higgins, 2001; Lowe, 2001; Maxwell, 2000) has clearly demonstrated, these are central topics that have not been given enough attention in policy-making. However, taken in isolation, a focus on the work-life balance would seem to miss the work-retirement tidal wave that is rolling in.

A.3 Tomorrow's work-leisure balance

Again, we may be victims of success. The economic well-being of Canadian retirees is high, and has improved greatly in recent decades, and at low public cost. This success on the retirement side of the work-retirement transition may well have created complacency on the working-life side. The result may be pressures towards ever-longer periods of life in retirement, with negative consequences on competitive positions and social exclusion.

The astonishing Figure 9 in the main text is an OECD estimate of the balance of time that men spend over their lives in work and out of work — with growing periods of time spent in retirement being a main driver. The implications for economic well-being policy are potentially profound, yet largely ignored in the literature. (The Canadian data is almost identical to the OECD average).

As noted, policy can play an important role in influencing the decision on when to retire. That decision has potentially large policy implications related to the balance between producers and consumers, as discussed in the preceding section, to labour supply generally, to social exclusion (most of life in old age is spent passively and often with low levels of satisfaction especially later in retirement, with the family becoming almost the only important connection with the rest society), and to the allocation of work and leisure over the course of life. The fifth chapter describes how old-age public spending is likely to crowd out other kinds of public spending in coming decades. Once again, the win-win policy remedy lies in encouraging somewhat later retirement.

These trends may have been overlooked because they disappear at the macro level — being offset by trends towards more work by women and by population aging. (As shown in the preceding section, the trend to less work happened during a period when, in total, the share of the population at work has been rising.) However, those offsets will disappear in 10 years' time.

Another reason why the trends may not have received attention recently is that trends towards earlier retirement stabilized in the 1990s and may well reverse themselves without policy action, if there are future labour shortages. Yet, despite these qualifications, the odds seem very high that the work-retirement transition will be near the centre of tomorrow's policy agenda.

A.4 Human capital: The demand and supply of workers

Changes in stocks of wealth are the second component of economic well-being discussed in Chapter 2, including human capital and other forms of productive capital. Here the discussion is limited to human and social capital, which are within the scope of this paper. In the Index of Economic Well-Being, attention focused on the changing value of stocks of capital as indicators of sustainability, whether we are passing on a stronger or weaker capacity for the future. As well, of course, human capital (and perhaps social capital) is an important determinant of productivity and hence consumption.

Sections A.4, A.5, and A.6 on human capital are about trends in human capital that could affect the medium-term policy agenda. This section examines the likely future demand and supply for workers, particularly in terms of age and educational levels. Section A.5 takes a second pass and attempts to take a more detailed look at the demand and supply of skills themselves (as opposed to educational attainments) and asks whether, for medium-term planning purposes, the focus should be skills or on learning. The third human capital section examines human capital from the perspective of migration and mobility.

Different assumptions about the future demand for labour

As discussed above, recent Canadian history would suggest an ever-increasing demand for labour. The percentage of the population that is employed has grown relentlessly as the economy has absorbed startlingly large numbers of baby boomers, women, and immigrants. The past has seen increasing demand for skills across the skills spectrum, particularly at the higher end.

There are widely differing views on whether the strong demand for labour will continue in the globalizing knowledge-based economy. However, as Box 1 in the main text shows, basic skills-acquisition strategies are similar, regardless of the scenario foreseen.

Supply — the number and age of workers that will be available

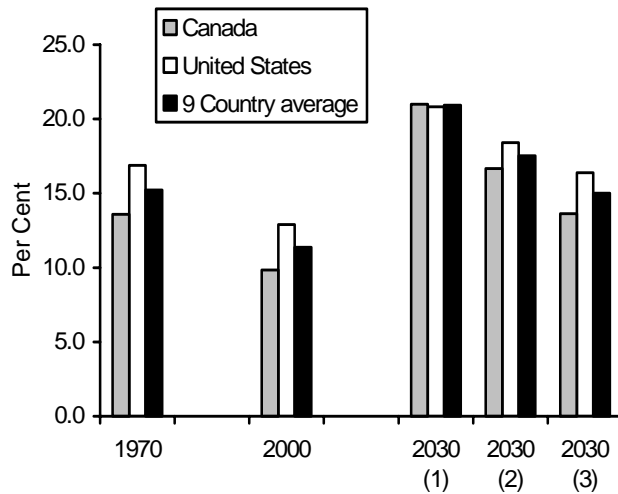
If overall demand is high, will there be enough workers to meet that demand? The OECD calculations in Section A.2 of the percentage of the population that might be employed in 2030 can be used, of course, to calculate the size and age structure of the future workforce.

An earlier chart showed that the relative size of the workforce is likely to level off after about 2010 for demographic reasons and then either remain constant or fall for the two decades after that, depending on assumptions made about retirement ages. Figure 13 shows how the workforce would age by examining trends in percentage of employees that would be over age 55. The plausible outcomes projected here are the same three for 2030 shown in Figure 12.

In recent decades, the Canadian workforce has become a little younger because of demographics and early retirement. As well, its workforce has been somewhat younger than

in most other OECD countries, and slightly younger than in the United States. Since younger people in the past have been better educated than older people, this has led to a somewhat more skilled labour force — at least on this count.

Figure 13: Percentage of Workforce Over the Age of 55 — 1970, 2000, and Three Plausible Outcomes for 2030



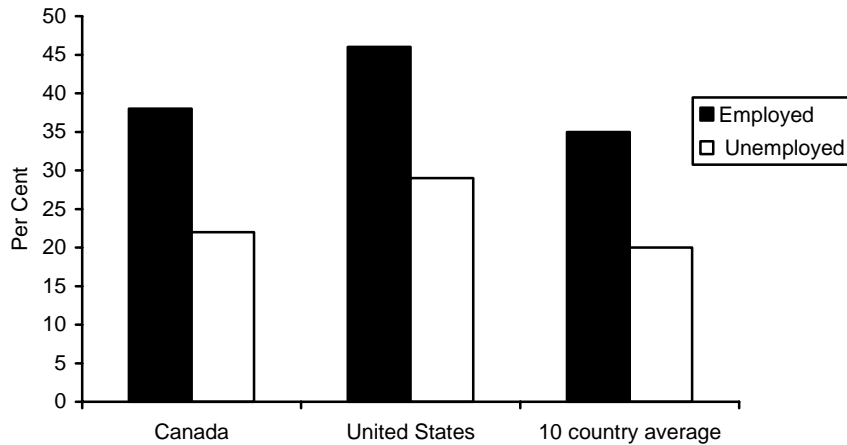
Source: OECD (2001a).

A somewhat older workforce, but implications may not be large. In most of the plausible outcomes for 2030, the size of the older workforce would grow — although not by much, and Canada’s position would not change greatly relative to other countries in terms of the age structure of the labour force. In any event, as will be discussed below, age may not be a big factor in determining the skill levels of the future labour force. If anything, an older workforce may, on balance, be more adaptable and skilled.

Supply — Education gaps by age have fallen. For example, the differences in educational attainment between the youngest and oldest male workers has been greatly reduced as the cohorts that benefited from the large expansion of post-secondary education in the 1960s are now older workers and have the combined benefit of higher education and greater experience. There is now only a small gap between the number of men aged 25–34 and 45–54 in terms of the percentage of those with post-secondary education, and new entrants have an educational profile that is similar to that of the male workplace as a whole. (Indeed, as described in the second chapter, younger male cohorts are now doing worse in the labour market than when the older cohorts were of the same age.) The educational gap still exists for women but it is closing rapidly (and younger female cohorts do not face the same relative disadvantages).

The drop in the number of new entrants from schools has already happened. Some of the literature suggests that fewer school graduates entering the labour market could cause rigidities. If there is need for a quite different set of skills in the future, recent graduates are most likely to have received those skills at school. However, as shown in Box 1, the most prudent strategy would appear to be to concentrate on high generic skills in initial education.

Figure 14: Participation Rates in Job-Related Adult Training, Canada, US, and 10 OECD Countries, Mid-1990s



Source: OECD (2001a).

More important, the entry-level population will only be slightly smaller than that of today.⁹⁰ One possible area of concern relates to a possible reversal of trends to staying in school longer. Especially at lower skill levels, young people’s educational decisions are considerably influenced by labour market signals such as wage rates. When unemployment was high in the 1990s, young people were unable to find work and chose to stay in school longer.

This raises the possibility that, with an improving labour market, lower-skilled young people will leave school earlier — that is, act counter to a longer-term goal of raising average skill levels and narrowing the distribution of skills. There is, however, no firm sense of the magnitude of such a reversal or, indeed, if it would be a problem if it did occur.

Supply — the education and training effort is high on most fronts

In terms of ensuring high levels of human capital, Canada ranks reasonably high on most measures. In terms of adult training, there is a sharp east-west divide in participation in formal job-related adult training in Canada with participation rates in Quebec and Atlantic Canada again being significantly lower than in Ontario and Western Canada.

⁹⁰Today people aged 20–24 (when many students enter the labour market) represent 11 per cent of the working age population (ages 20–64). In 2025 the figure will have fallen to only 10 per cent. We have already experienced the shrinkage of new entrants. (Twenty-five years ago, the comparable figure was about 16 per cent.) The comparable American figures show slightly more new entrants from schools. The ratio between the new entrant population and the working age population is the same as in Canada today (11 per cent), but there it will rise by a percentage point in 2025 rather than fall by a percentage point. (Projections beyond 2025 or 2030 are highly uncertain because fertility patterns could well change. However, for the next 25 years most of those who will become new entrants are already born.)

The chart shows that adult participation in job-related training in Canada was a little less than in the United States and a little higher than in many other OECD countries. The duration of this training in Canada, at 120 hours per trainee, was well above the OECD average but below the American average of 133 hours. (Other data sources cast great doubt on the wisdom of using formal training as a proxy for learning on the job; the data are much more consistent with experience — using it or losing it — as being a more important factor.)

The combined demand and supply story — no big surprises on the horizon?

To this point, the story does not appear to signal any new factors that are likely to emerge over the next decade that would create a need for fundamental policy change in the medium-term. No big story emerges with respect to the future supply of labour. There is much uncertainty about the demand for labour but, in all cases, the responses of skills acquisition policy seem to be about the same — and not much different than existing strategies.

Riddell's comments show a similar story drawn from another source based on a particularly useful synthesis of the recent literature on the subject.

The topic is large on policy agendas today in part because people are trying to look behind the crude data discussed to this point and look at the actual skills people have, not only numbers of people and their educational attainments. A story of the demand and supply of skills raises much more interesting issues, including the possibility of operational strategies for investing in skills and human capital — that is, by driving investments in specific skills by the expected returns to those investments (in the form of skills utilization and productivity in the labour market). This is the subject of the next section.

A.5 Human capital: Is it a story about skills or learning?

This section attempts to look more closely at the factors that should influence the medium-term policy agenda. Ideally we should be looking at skills acquisition and usage — the outcomes of our systems of education and learning. A problem is that there are only limited data available on skills. The following paragraphs explore what we do know.

Skill level among adults

The strongest data sets that are now available do allow international comparisons of the extent to which people have the literacy and numeracy skills required to live successfully in a developed knowledge economy.

The chart comes from the international survey of adult literacy. It shows that Canadians are a little more skilled than Americans. We are in the middle of the pack when compared with other countries. At the highest skill levels, Canada ranks high; what pulls us down compared with, for example, some Scandinavian countries is they do better than us at the bottom of the skills hierarchy. Their “skills floor” is higher than ours. A Canadian strategy that concentrated on raising minimum skill levels would appear to have the most chance of success in increasing skills levels on average, and in reducing inequities in the distribution of skills.

Inside Canada there is much variation from province to province, with Ontario and the West doing better than Quebec and the East.

Box 13: Educational Expenditures (Total) and Benefits

Educational expenditure

In terms of educational expenditures (from both public and private sources) as a per cent of GDP, there is little difference between Canada, the United States, and other developed countries as shown in the table below. Among provinces, the richer provinces have to spend a smaller per cent of GDP to get the same result on a per student basis, as can be seen from the graph below. Per student spending does not vary greatly among the provinces or among developed countries at the elementary and secondary levels. Nor are interprovincial differences all that great at the post-secondary level.

The main differences among countries, however, are at the post-secondary level. Canada spends considerably more per student than the G7 average, and indeed is second only to the United States.

Trends

In terms of trends, expenditures fell in the 1990s. This was the result of falling enrolments, fiscal pressures, and, arguably, efficiency gains.

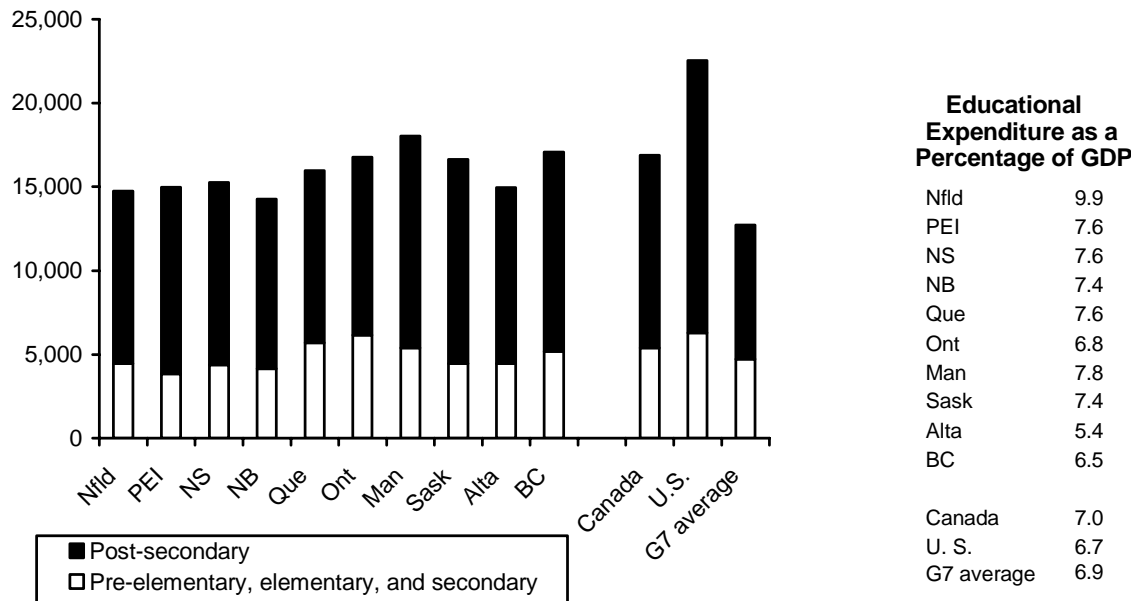
Benefits from that spending?

Research has shown that there are important economic benefits to individuals from education, partly as the result of acquiring greater skills and partly through the use of education as a screen in hiring practices. However, the evidence is unclear about the effects of additional educational investments on economic growth, productivity, inequality, and social inclusion in those countries that now have mature systems of post-secondary education.

As described in the text, the complex linkages among adult skill levels, educational attainment, and earnings — and also the very weak linkages between educational expenditure and educational results — means that evidence on returns to investments in education is also weak.

On balance, the evidence seems to suggest that additional skills and learning investments probably do have significant longer-run social and economic payoffs because of indirect (and hard to measure) spinoff effects. Indeed, Riddell (see Box 14 on Riddell's conclusions) argues that the best evidence shows that we have typically underestimated the returns to educational investment.

Expenditure per Student, Mid-1990s (in US dollars PPP adjusted)



Source: OECD (2001b).

Box 14: Conclusions of Craig Riddell on the Comparative State of Education and Skills in Canada (Riddell, 2001)

Canada invests heavily in education. Relative to other G7 or OECD countries, Canada ranks near the top in terms of expenditure per student or the fraction of GDP devoted to elementary, secondary, and post-secondary education. One consequence of this substantial expenditure is a population that is well-educated by international standards. Canada compares favourably with other G7 and OECD countries in terms of most measures of educational attainment. Compared with the United States, Canada has lower educational attainment at both the bottom (less than completed high school) and top (university degree) of the Education distribution.

Where Canada stands out is in the middle of the distribution — those who have completed high school or a non-university secondary program. The proportion of Canada's population with a non-university post-secondary education is much higher than that of any other OECD country . . . (*although there are some measurement problems*).

Student achievement in mathematics is about average among the diverse set of countries participating in these tests, and relatively low among the G7 countries that participated. Student achievement in science is somewhat better, although still relatively low compared with the other G7 participants. These results suggest that Canada may not obtain good “value for money” from its relatively high expenditure on the elementary and secondary school system, at least as judged by student achievement in mathematics and science.

However, although the average Canadian performance is less than impressive, some jurisdictions — especially Quebec in mathematics and Alberta in science — achieve results that are excellent by international standards.

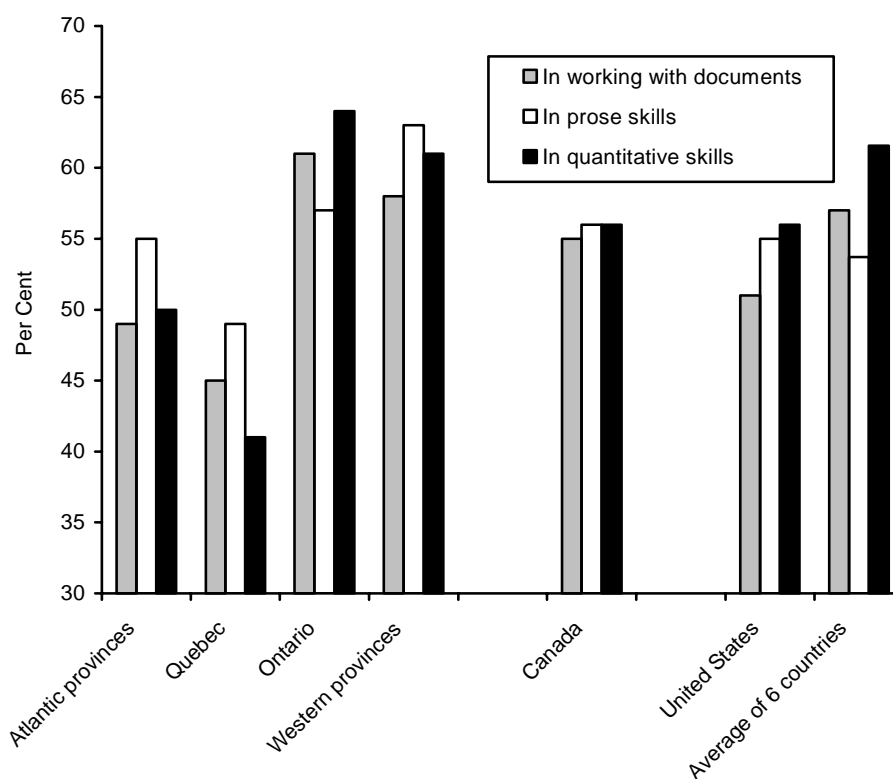
The literacy skills of the adult population are above average among the G7 countries that participated in the IALS survey. Canada, like the United States and United Kingdom, has a high variance across the population in its literacy skills compared with European countries such as Germany. By international standards, older and less well-educated Canadians have relatively poor literacy skills, whereas younger and well-educated Canadians have relatively good literacy skills compared with their counterparts in other G7 countries.

Important recent advances have taken place in our understanding of the relationship between education and labour market success. Conventional estimates of the return to schooling appear, if anything, to be biased downward — so the causal effect of education on earnings appears to be higher than previously believed. Further, the marginal return to incremental investments in education may exceed the average return from previous investments. There is no evidence that investments in schooling are running into diminishing returns. These results suggest that investments in human capital remain an important potential source of economic growth and equality of opportunity.

Skill level among younger people. Literacy scores among 15-year-old schoolchildren — the Program for International Student Assessment (PISA) results released in December 2001 — suggest optimism about the quality of schools about the skills of tomorrow's working age population. In reading skills, Canada rated second highest among a large group of countries, second only to Finland and much higher than the United States, which ranked about average. Similarly, in mathematics, Canada ranked well — below Japan, Korea, and New Zealand but well above the United States, which again ranked about average. Science scores are similarly high. In Canada, Alberta and Quebec again do particularly well.

The survey also examined some of the determinants of high skill scores among students. The most important of these are home background and socio-economic status of parents. Schools also made a difference — with the factors relating to the “learning culture” in schools making more of a difference than “hard” factors such as physical infrastructure, curricula, or educational expenditure. Note that in Canada, the highest scoring provinces — Alberta and Quebec — are not the biggest spenders.

Figure 15: Percentage of People Aged 26–65 With Moderate Skills or Better (3 or more IALS score)



Source: OECD (2001b)

Skill determinants of adults

The international adult literacy survey also provides insight into the causes of skill differences. There are large variations in skill levels among people with the same educational level, age, gender, occupation, etc. The explanatory power of 12 of the variables that are most commonly thought to be determinants of skill levels (education attainment of the individuals, age, occupation, gender, parent's education, being a native language speaker, participation in voluntary organizations, reading at work, etc.) were examined. Perhaps the most interesting finding is that these variables in total explained less than 60 per cent of the variation in literacy scores (and even less in most other countries).

By far the largest explanatory factor in Canada was an individual's educational attainment. The next most important factor was having a native versus a foreign language. Occupation made a difference as well, but other factors — including age or parent's education — explained very little. Intergenerational mobility is high as it relates to skills.

The uses of skills. The international adult literacy survey provides insights on the uses of generic skills. In Canada skill levels related to numeracy and literacy are more important than either education level or experience in determining earnings. This presumably reflects the strong links that must obviously exist between skills and productivity, links that are not well captured by using educational attainment as a proxy for skills.

There are also strong relationships between higher skill levels and a number of desirable labour market and, especially, social outcomes. For example, there is a relationship between inequality of income and inequality of literacy outcomes.

On balance, there is no evidence of a major gap in specific skills

Based on existing data, there is no strong evidence of large medium-term gaps in specific occupationally related skills. The demand for skills is changing, but so is the supply of skills. There are some weak links and inevitable cyclical imbalances in demand and supply, but overall our systems seem to have been quite responsive by world standards. Many studies have looked for a skills gap, but found none (e.g. Gingras & Roy, 1998). The recent Expert Panel on Skills (Advisory Council on Science and Technology, 2000) did report that there were gaps in more generic or essential skills such as the ability to express oneself, work in teams, leadership skills, etc. — but not in technical skills.

It is perhaps too easy to forget how markets operate. Individuals adjust their skills acquisition behaviours in light of wages and job availability. Over the long-term, employers adjust the content of their jobs to match the skills of potential employees. It is not surprising that there are few long-term persistent gaps in specific occupational skills.

A strong need for higher levels of generic skills. The lack of medium-term gaps in specific occupational skills does not mean there will be no requirement for higher-level generic skills. To the contrary, Human Resources Development Canada (HRDC, 2002) estimates that by 2004, 70 per cent of all new jobs will require some post-secondary education, 24 per cent will require a university degree, and only 6 per cent less than full secondary education. This is a big increase over existing levels, and one that will not be easy to meet.

Markets, educational institutions, and migration policies will adjust to much of this increased demand within the existing policy framework — but likely not quickly enough to keep up with global competition. As noted, the main reason why skills are so prominent on the policy agenda lies not in a past problem that needs to be fixed, but in our relative competitive position in the future.

As Courchene (2001) and others have pointed out: what else can we do but invest in human capital if we want to improve/maintain our competitive position, since all other methods are suspect in a global economy. A race to the top in terms of skills acquisition seems to be a more likely outcome of globalization than the much-feared race to the bottom in terms of social protection.

Would a learning approach to policy be better than a skills approach for more medium- and longer-term policy planning?

Starting from the perspective of skills and skill shortages seems, logically, to be correct. We should be more interested in the outcomes of learning than in the process of learning. However, the skills that are needed are mainly broad generic skills, where it is difficult to disentangle the outcome from the process of learning. As well, the supporting data about skills are too thin to provide a good foundation for medium-term analysis. We know little about the full range of skills that people have now, how skills are actually acquired and maintained, how they are used and rewarded in the labour market, or about which investments in particular skills are likely to have highest returns.

Some advantages of shifting to learning as a medium-term organizing principle. It may be better to take a step backward and, for the purpose of longer-term analysis, develop a policy framework that centres not on outputs (i.e. skills) but on processes and institutions (i.e. lifelong learning). Most people would share the value that learning is important both in terms of basic preparation for citizenship and for labour market success. Most people would be comfortable, at least at the level of principle, with the concept that learning should be a continuous process over the course of life. Those intuitions and values are likely a better reflection of what is needed than can be provided by the sketchy information on actual skills.

Box 15 gives a rough comparison, based on the analysis here, about how priorities might appear on a medium-term agenda organized around learning and one organized around skills. There would be much overlap between the two in practice. However, at least in this stylized version, the learning agenda seems to provide a more manageable basis for action.

Some drawbacks. A problem with a learning approach is that it focuses on institutions — a great many institutions at that — including those of education, the workplace, and early childhood development. A learning approach therefore means that a discussion of jurisdiction cannot be avoided. The machinery for harmonizing action across jurisdictions and disciplines in the area of learning is weak in all countries, certainly so in Canada. The fourth chapter discusses the art of the possible — our capacity to undertake coordinated action.

More important, if we truly wish to translate the rhetoric of social investment — of investing in human capital — into operational policies, we will have to deal with real outcomes (i.e. skills, not learning) and to relate specific investments to those outcomes. That is not possible today and the fourth chapter of the paper places much priority on ways of building a knowledge base that would eventually allow future policy-makers to shift to a skills basis.

A.6 Human capital: Immigration and mobility

The skills of the existing population are one aspect of human capital. The capacity to bring those skills to where they are needed is another. So is the capacity to attract skilled people from other countries.

Immigration

Immigration plays a much larger role in providing needed skills to the labour market in Canada than in other countries (as can be seen in the 20-country OECD average on the chart), with significantly greater immigration than in the United States. Only Australia,⁹¹ where a quarter of the labour force is foreign-born, is higher.

Immigration levels in Canada have been fluctuating around 200,000 individuals a year. Only modest increases in immigration beyond this level would be sufficient to keep Canada's labour force and population from falling. In terms of economic effects, the evidence suggests that immigration has a positive but modest effect on economic well-being. There may be a modest beneficial effect on public finances. There may be some negative, but small, effect on unemployment, likely offset by gains in labour market flexibility. While these are OECD findings, they are mirrored in national studies.

⁹¹Luxembourg is the other exception but it was excluded from the average.

Box 15: Two Alternative Approaches for the Medium-Term: A Skills Agenda or a Learning Agenda?

Priorities from the perspective of learning

- Strengthening gaps in the learning infrastructure (early childhood education, adult learning).
- Producing a more equal distribution of learning opportunities, particularly by raising floor levels of educational attainment and greater emphasis on raising attainments in the bottom portion of the learning spectrum. (Regulation, promotion of cultural change, and working through partnerships in order to raise the socially accepted normal school-leaving age.)
- Strengthening weaknesses in financing (learning and development accounts, for example).
- Increasing market responsiveness through information and the capacity to use information (e.g. providing labour market and training information, supporting sector councils).

Priorities from the perspective of skills

- Strengthening lower-end generic skills by raising the floor level of minimum educational standards (for example, through curricula improvement, educational testing, and so on).
- Reducing inequalities in skill levels. (Recent literature suggests that preventive, early childhood interventions are likely to have highest payoff, although the third chapter notes that the evidence supporting that is mixed.)
- Strengthening high-end skills (certainly by increasing overall educational attainment levels, but there is virtually no data on which to go further and to project specific occupationally oriented skills gaps).
- Addressing specific market failures where skills are underused and under-recognized (among immigrants with high credentials, among unemployed or underemployed post secondary education graduates, in geographic mobility of skills).

Priorities common to both

- Building common skills/learning standards into the educational system and labour market (into job classifications and prior learning assessment, pay scales, etc.).
- Research and data development about skills — their acquisition and use, and the capacity to link specific investments in skills to their expected payoff.

Immigration as a means of altering the consumer-producer balance. A key determinant of economic well-being is the proportion of the population at work and producing goods and services. That proportion is greatly influenced, as described earlier, by population aging and will be negatively affected by the coming retirement of the baby boom generation. Can immigration be part of the solution?

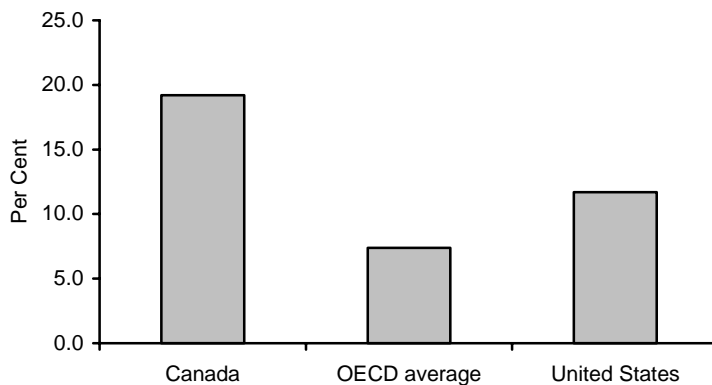
The short answer is no, or at least not enough to warrant serious policy attention. Immigrants are not only producers. Workers from other countries and their families are also consumers. This means that, unlike later retirement, which alters the balance between producers and consumers, immigration does not have a large effect on per capita consumption. Selective immigration policies that bring in many younger workers could have a temporary effect on the age structure of the workforce, but it would be small under any plausible scenario.

Immigration as a source of labour supply. The analysis of future labour force needs would seem to suggest a need for continued high reliance on a net inflow of skilled immigrants, particularly with high level generic skills. The present system places more emphasis on specific occupations, but policy has already shifted to favour more generic skills. Other countries are also placing new emphasis on skills and the competition for skilled immigrants is likely to increase. The policy challenge with respect to immigrant selection may therefore be best framed in terms of maintaining our lead compared with other countries.

A win-win policy response might well centre on selection and making use of the skills of immigrants after they arrive.⁹² Credentials that recognize the prior skills of immigrants could be a major step (and may help in recruitment of the more highly skilled). As well, recent immigrants are one of five key high-risk groups at present.

Emigration as a brain drain. Despite media attention, emigration of skilled workers is small in Canada and low by historic levels although there was some (expected) growth in emigration of skilled people to the United States in the 1990s. The problem lies in the loss of some good people in the medical, academic, and R&D sectors. The primary solution — to the extent that solutions are needed — must lie in specific actions related to those sectors. Improvements in overall economic well-being will make Canada more attractive for skilled workers, encouraging immigration and discouraging emigration. There are, of course, different views on what constitutes economic well-being. Some stress economic growth and the importance of lowering taxes; others stress the importance of maintaining health and social services and strengthening social capital. However, the brain drain is so small that, in itself, it should not drive the broader debate. See Finnie (2001) for a full discussion.

Figure 16: Percentage of Foreign-Born in Labour Force, 1998



Source: OECD (2001b).

Interprovincial migration and mobility

Interprovincial migration in Canada is large and closely related to economic well-being. Out-migration from provinces is related to provincial unemployment rates and to receipt of unemployment benefits and social assistance. People who move to another province do increase their earnings, often substantially as Finnie (1998) has shown. Urban people and

⁹²See Alboim (2002) for an excellent discussion of integrating immigrant skills into the Canadian economy.

people with either no earnings or high earnings are particularly mobile, with less movement from people in smaller centres or rural areas and among entry-level men. Recent changes in Employment Insurance should further reduce disincentives to mobility, but the full evidence is not in.

Job stability and mobility

Geographic mobility — getting skills to where they can be used best — is one dimension of the mobility of human capital. Job mobility is another dimension — changing employers, industries, or occupations as skills and interests change. Available data make it easier to look at job mobility in terms of its inverse — the stability of existing jobs and the duration of job tenures. Using such measures also makes it clear that mobility has its dark side in the form of economic insecurity.

Until analysts actually studied the recent data, the anecdotal evidence seemed to suggest that we were moving to a new economy characterized by much less stable job attachments, with multiple careers over the course of life. However, this alleged transformation of the world of work has proved to be largely mythical.

The data suggest that, while there has been some polarization of job tenures in recent decades (more long-term jobs and more short-term jobs), the stability of currently-held jobs has remained quite stable since the 1970s. A closer look at jobs of different lengths (Heisz & Walsh, 2001) reveals two phases. The period 1977 to 1993 was characterized by declining job stability. The second phase, 1993 to 1999, was characterized by a reversal of these trends such that by the end of the period, jobs of all lengths were equally as stable as in the late 1970s.

Declines in job stability across the 1980s were concentrated in low education, older and younger groups — but job stability grew most for these same groups in the 1990s.

Median job tenure is somewhat longer in Canada than in the United States (nearly five years in Canada in the mid-1990s, compared with nearly four years in the United States). However, job stability changes were similar in the two countries between 1987 and 1991, while job stability in Canada rose relative to the United States between 1991 and 1995, likely reflecting differences in depth of the recession and the speed of the economic recovery,

A.7 Social capital in the future: Dense or intense networks?

Social capital consists of the formal and informal networks that facilitate collective action. Human and social capital work, it is sometimes argued, together to increase economic well-being via their role as mutually-supporting determinants of productivity. The productivity gains flow from a complex of factors that is not yet fully understood, but likely includes lower transaction costs by increased trust, faster diffusion of innovation, and faster adjustment. As well, human and social capital are both direct determinants of overall well-being as shown by Helliwell (2001a). High skills and strong social networks result in better health and subjective feelings of well-being. Concepts such as social inclusion and cohesion can be given substantive operational meaning through analysis of access to social networks.

While much of the literature treats social capital as little more than a metaphor, the potential power of the concept for policy analysis lies in treating networks as real capital, which can be

analyzed along with physical and human capital. People gain from their contacts with others, but networks of contacts require current investment to create and maintain. New analytic tools⁹³ hold the promise of allowing quantitative exploration of returns to those investments, how the assets depreciate over time, how distance affects investment costs, the stability of networks, and how they can become congested, etc.

As with human capital, social capital is driven by individual decisions, but with effects at the community level that are greater than the sum of the individual effects. That is, individuals with high investments in social networks gain relative to individuals without such investments, but early research suggests that the society as whole gains even more as the resulting networks become denser.

Social networks appear thin and becoming thinner

People participate in few organizations outside of work and family. Figure 17 shows that adult Canadians participate in about one organization on average, and only about a third of Canadians are active members of any organization. This is still above the OECD average (22 countries). The figures for the US are a little higher, in part reflecting the larger number of Americans that are members of religious organizations.

Participation has been falling since the 1960s at least in the United States where Putnam shows falling social capital using a number of indicators ranging from trust, to being officers of associations, club attendance, and philanthropic activities.

In Canada the percentage of people who volunteered rose somewhat from 1987 to 1997 but then fell back to 1987 levels by 2000. (Large numbers of unemployed young people, who used volunteering as a form of job search, may be responsible for the 1987-97 increase.) Time use data, which actually measure how people spend time throughout the year, show lower levels of participation. About 18 per cent of Canadians participated in a civic or voluntary activity in 1998, but those who did volunteer did so generously — nearly two hours for those who did participate. Time use data also suggest that people become more passive and socially isolated after they retire, suggesting that policies that encourage later retirement patterns might also increase social capital.

The total amount of charitable donations and total time spent volunteering is strongly influenced by a minority of particularly generous contributors. The extent of generosity is linked to religious attachment, which has been falling steeply for decades, particularly among younger adults.

But these results could be misleading

There is an obvious paradox in much of the current literature. If it is true that denser networks foster economic growth, why have those networks become weaker during a period of strong economic growth? The analysis of thinning social networks above, however, is greatly influenced by an implicit assumption that what counts is the volume of contacts as opposed to the quality of those contacts. Yet the evidence is clear (see Helliwell, 2001b) that some forms of “connectedness” are more important than others in terms of their effects on well-being. Marriage, for example, is particularly important (the social networks of couples

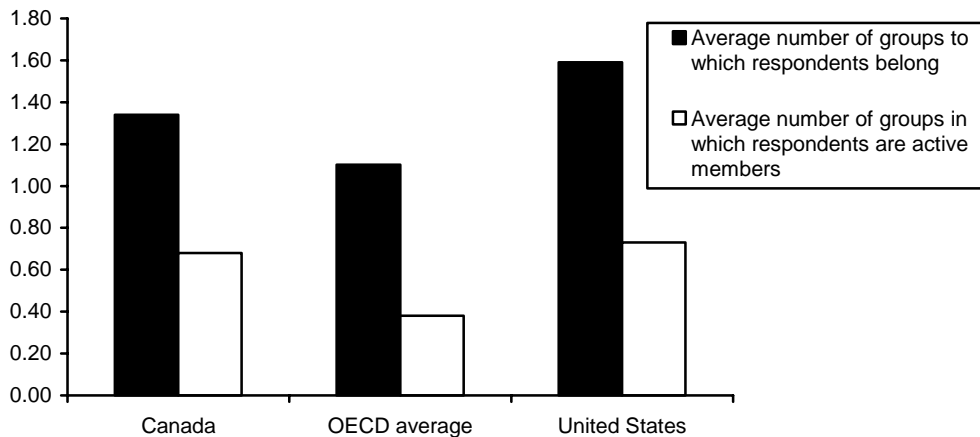
⁹³The network analysis developed by Johnson (forthcoming) would seem to hold much promise for policy research.

are denser than for the unattached) and, here, there are some positive trends such as lower divorce rates.⁹⁴

Policy pressures

The literature on the thinning of social networks appears to provide grounds for policy concern. People seem to be becoming more passive, inward, and self-centred. That ought to have negative effects on subjective well-being and, possibly, on economic well-being as well as the result of negative effects on productivity. However, the empirical literature is simply not strong enough to warrant pessimism (or optimism) at this point.

Figure 17: Density of Associational Activity 1990–91



Source: OECD (2001b)

Social capital concepts are underdeveloped and their policy implications must be treated with great caution. The use of network analysis (see Footnote 93) holds promise of moving social capital analysis to a much stronger empirical basis. This includes the possibility of shedding new light on the linkages between social and other forms of capital and for deeper exploration of the relationship between individual- and community-level returns. However, that work is still in its infancy. Section 6.6 explores the collection of new data that could eventually greatly enhance our understanding of social capital, the links between social and human capital, and the effect of social capital on well-being.

⁹⁴The Internet poses some interesting problems for the measurement of social capital. If one of the nodes in a system of contacts happens to be an Internet connection, the returns to the investment in maintaining that contact can be very high indeed — quite likely making it rational to reduce investments in maintaining other contacts. Depending on the definitions used, the explosion of Internet use can be seen both as leading to a dramatic increase in returns to social capital networks and a possible thinning of the overall size of the network — as measured by traditional ways of identifying network nodes such as participation in voluntary organizations or face to face contacts. As well, community-level returns may be greatly amplified as the Internet community expands.

A.8 The distribution of economic well-being: Equality of what and for whom?

What will equality mean?

Equality is the third of the components of economic well-being discussed in the second chapter. Policy advisors have typically been careless about their definition of equality and equity.⁹⁵ As discussed in the second chapter, its meaning varies greatly depending on the answers to the question of equality of what and for whom. Also, equality overlaps other core values such as freedom, fairness, basic rights, individual choice, and social inclusion and exclusion. Definitions that get closest to what people probably mean — such as the extent to which people are able to exercise basic human rights, or equitable opportunities to realize human capabilities or low pressures towards social exclusion — tend to be difficult to measure.

It will be important to get the equity and equality concepts right as new policies are being designed — and they are likely to vary considerably from one policy area to another. However, for purposes of identifying problems — the subject of this section — the concepts overlap considerably. If a group is found to be treated inequitably on one criterion, then the odds are high that it will be considered as disadvantaged on most other criteria. So, for simplicity, this section will refer to groups that face “disadvantages” — that is, disadvantages that relate to economic well-being and that are, or should be, the subject of policy action.

This section reviews the trends that cause disadvantage, first from a static income equality perspective and then from a more dynamic life-course perspective. It then examines trends that may affect particular groups that have received, or should receive, special attention on the policy agenda.

Sources of income inequality — the roles of market, family, and state in the past

We start with the static measures of income inequality that are at the heart of most current analysis. Income comes both from earnings and from taxes and transfers. That income is pooled among household members, with household size being important.⁹⁶ Look first at the broad averages. These were reviewed recently by Heisz, Jackson, and Picot (2001):

- Market-based inequality in the form of earnings inequality was little changed over the 1990s after increases in the 1970s and 1980s. Overall, the Canadian pattern has differed considerably from that in the United States where market inequality has been growing throughout the whole period.
- However, on a family basis, inequality in the 1990s increased as result of changed family formation patterns — single parents and the growth of two earner families (low earners tend to marry low-earners).

⁹⁵Note again that this paper usually uses “equality” to refer to outcomes and “equity” to refer to opportunities, but the careful reader will have noted that this has not always been done consistently.

⁹⁶Two do live cheaper than one and there is often choice in size of households as families separate and re-form over the course of the participants’ lives — for example with young people without jobs choosing to stay longer in the parental home.

- In turn, family and earnings inequalities were largely offset by the tax-transfer system, which ensured the overall level of stability in disposable family incomes — even though the system became less generous in the early and middle 1990s. This is in contrast to the United States where the tax-transfer system did not compensate. Total inequality has been rising steadily in the United States.

Income inequality in the future. With respect to the family-based inequality, future patterns will be considerably driven by trends in family formation, particularly the number of earners in the household. That is, they are driven considerably by marriage, divorce, and cohabitation rates that are, as explained in the next section, hard to predict. With respect to work-based inequality, it is quite unclear whether trends to greater inequality and polarization of hours will continue. There are certainly some worrying signs about the persistence of lower incomes among younger cohorts. In terms of real earnings, there has been a growing gap between younger and older workers over the 1980s and 1990s with younger men being the main losers. (The problem seems to be attached to younger cohorts taken as a whole; as people in these cohorts grow older, their wages do not appear to grow as much as they did for earlier cohorts). However, it is not at all clear what will happen a decade from now when labour shortages may well be severe.

As well, there are many theories that predict that globalization and the knowledge economy will lead to a more polarized workforce, typically centring on an assumption of less demand for low-skilled labour. However, existing evidence provides little support for these theories, as is well summarized in Heisz, Jackson, and Picot (2001).

Moving towards a more dynamic notion of life-course inclusion

The fourth chapter suggests that the notion of static income equality at a point in time is likely to be replaced by more dynamic concepts of equity (social inclusion) over the course of life, with an emphasis on individuals having equitable opportunities to realize their potential, including access to a range of social resources as well as to income. Often this means a concentration on people when they are younger in order to equalize life chances and to prevent the transmission of disadvantage across generations. It also implies a focus on those high-risk groups where intergenerational transmission of disadvantage is most likely.

Seen in this context, recent trends — which show the greatest distributional improvements among older people and greatest distributional problems centring on poor children — may seem perverse. We seem to have been concentrating at the wrong end of the age spectrum. However, this is simply a matter of timing lags, with the improvements in older ages being the result of pension policy decisions taken many years ago. However, increasing spending on older people may well be a real problem for the future if, with the retirement of the baby boom generation, that spending crowds out social spending on other age groups. This topic is addressed below in Section A.11.

Encompassing time crunches and gender equality. A life-course approach to inclusion will also encompass newly emerging issues related to gender equality — time crunches and equality in the balance of time devoted to paid work, unpaid work, leisure, child-raising, and other caregiving over a lifetime. It might have been expected that the large gains in women's learning and employment might have been balanced not only by losses in other groups but

also by losses among women on other fronts — particularly in greater time crunches as women take on additional paid work, while still carrying out traditional housework and child-raising roles.

That is true to some extent, but the data from an important 1998 survey of time use by Statistics Canada, (Frederick & Fast, 2001) paint a more nuanced picture:

- About a quarter of employees can be described as time-crunched — 27 per cent for women and 22 per cent for men. Women who felt time-crunched spent only a little more time in employment; the bigger difference is that they did more housework.
- It might be felt that a quarter of all employees feeling serious time stress is a major policy problem. However, other questions on the survey suggest that perceived problems are surprisingly small. About three quarters of all employees are satisfied with their work-life balance — with no large differences by gender. Less than 10 per cent are dissatisfied with life generally.
- When asked about life satisfaction overall, those women describing themselves as most satisfied averaged *longer* weekly hours.
- Compared with an earlier reading in 1992, time stress grew, but more strongly among men.
- The big drivers of satisfaction with the work-life balance, time-crunches, and life satisfaction are not hours at all — but health status and whether people enjoyed their jobs. (Note, however, that the satisfaction of women who enjoyed their work did not increase if they worked longer hours.)
- The presence of children, as might be expected, increased time crunches. Single women were much less satisfied with their life overall than married women, but experienced about the same time pressures.

About 1 in 5 people overall (not only employees) felt time-crunched. That is about the number that might be expected for a characteristic that is normally distributed throughout the population (it is the tail of a normal distribution) and is inherently neither a source of worry nor a source of celebration. The real question is whether there are any serious negative consequences associated with feelings of time pressure. And, as noted, the survey results suggest that other factors — such as job satisfaction — are good deal more important than time pressures per se.

However, the survey should not be read to suggest that the balance of work and non-work time is unimportant. The data clearly suggests that more flexibility in working time would be welcome and would contribute to people's well-being. As well, much research (Conference Board of Canada, 2001; Duxbury & Higgins, 2001; Lowe, 2000) shows the economic as well as the social importance of quality work places — and of the role of time flexibility in

achieving that. However, the time use data do suggest that the concept of time crunches is not the best entry into the topic.⁹⁷

Encompassing generational equality. The fact that the poorer economic position of younger cohorts in the labour market seems to be persisting suggests that a life-course approach to inequality may have to take account of the possibility of growing inequalities and tensions across generations. Fairness across generations has, of course, been a matter of long-standing — if somewhat cyclical — concern for policy-making.

A decade ago, for example, there was wide interest in generational accounting techniques. These showed how the tax and transfer systems created generational winners and losers. Early results, showing huge transfers away from younger and unborn generations, were useful in highlighting fiscal sustainability issues. They also whetted the appetite for more sophisticated tools for exploring intergenerational distributional issues in a more realistic way — especially ones that took account of in-family transfers of income and services and the role of inheritances in a world with greatly reduced fertility and increased family instability.

The research task has proved to be too difficult. In particular, intergenerational fairness is greatly influenced by adjustment taking place within families, but existing data is not strong enough to show how families, markets, taxes, and transfers work together across cohorts and generations. Policy implications therefore still remain unclear.

Certainly, recent research has undermined some of the assumptions about intergenerational mobility that had been widely accepted in the policy community. There is considerable intergenerational transmission of socio-economic status on average, but the mechanisms by which this happens are far from clear. There is much intergenerational mobility as well, with Canada being among the most mobile countries. As discussed in winners and losers section of the second chapter, income mobility is particularly high for people with lower incomes. Passing on low-income or low-education status to succeeding generations appears to be a smaller problem in Canada than has often been perceived.

A.9 The distribution of economic well-being: The five high-risk groups

This section suggests that the concentration of disadvantage in a limited number of quite well-defined groups is likely to continue and that the policy implications could be large.

Work-related disability

Trends in disability status are hard to assess. Definitions and expectations change over time. Available data suggest that the incidence of work-related disability is rising, but this may reflect different approaches to measurement. There is wide agreement in the disability community about future policy directions. The 1998 a joint government report, *In Unison: A Canadian Approach to Disability Issues*, (Federal/Provincial/Territorial Ministers Responsible

⁹⁷The data also suggest that life-course flexibility and time constraints have implications that go well beyond the time crunch and gender headings under which they are often addressed today. For example, the data also suggest that dissatisfaction with life among retirees is closely related to not having enough to do.

for Social Services, 1998) appears to have wide support in its broad social inclusion call for full citizenship in all aspects of society, with a clear emphasis on employment. The building blocks are the provision of

- *disability supports* — a range of goods and services that is essential for the active participation of people with disabilities at home, at work, or school and in the community;
- *employment* — enhanced employability, entry or re-entry into the labour market and paid work that contributes to economic independence, along with access to opportunities for education and training that are vital to gaining employment; and
- *income* — financial resources that are essential to the well-being and inclusion of persons with disabilities.

However, progress has been very slow. There is some evidence that the 1990s may even have seen some deterioration in the position of people with disabilities in the labour market. There can be little doubt that this group will remain a high priority in the medium-term policy agenda.

Recent immigrants

Some factors suggest that the economic well-being of recent immigrants may not be a high medium-term priority. It can be argued that lower standards of economic well-being among recent immigrants can be seen as a normal aspect of adjustment that should not be considered a major problem for policy — unless there are signs that the low-income status will persist and be transmitted across generations. There is evidence that at least some of the current difficulties were a reflection of the downturn of the 1990s and are already easing. They may be further eased as labour shortages grow.

Factors that work to increase the policy priority of this group are, however, likely to become stronger. With the anticipated increased demand for labour in coming decades, there will almost certainly be an increased demand for immigrants to contribute to the labour market. At the same time, there is likely to be increased international competition for skilled immigrants. Fewer applicants will be able to speak English or French. Active policy interventions will be needed to help in the transition to work, in order to use the skills of the immigrants and to attract them in the first place. The Alboim (2002) presentation, that was referred to earlier, addresses the policy implications.

Unattached older workers

This group is also a potential source of concern for the future. First, as two-earner families increasingly become the norm, unattached single-earners will become poorer. This is simply a result of the arithmetic by which relative income positions are calculated. In addition, if the effective retirement age increases on average (and it should for most people), this group may face increasingly long periods of disadvantage — assuming they cannot find work and finding new work is particularly difficult for older workers. Third, if patterns of labour market polarization and marginalization were to persist, they could, in time, have their greatest negative effects on middle-aged and older workers. There may be offsetting factors, of course, such as a decline in the number of unattached people. However, not enough is as yet known about the composition of this group to understand the potential consequences for policy.

Single mothers — a life-course problem

In the absence of major shifts in patterns of family formation, this group will remain a high priority for policy. It is here where patterns of dysfunction in family, in learning, and in the workplace are most likely to coalesce — resulting in problems for both the mother and the children. And the focus of policy has, in response, been shifting to earlier stages in the life-course, and particularly to children.

It is difficult to predict the size of this group in the future. While divorce rates are lower than their peak at the end of the 1980s, cohabitation rates (which is less stable than marriage) are up and more children of divorced parents (where divorce is also more common) will become of child-bearing age. The age of having a first child and the number of children are important — but projections here are also uncertain. The only safe assumption is that the problem will persist and be a continuing concern for policy.

Aboriginal people — a vicious cycle of differentiation, compounded by geography and age

The economic well-being of aboriginal peoples has moved to the centre of many policy agendas, but solutions have been difficult to find. Policy must deal with a unique mix of cultural/racial/economic, and social differentiation, together with equally unique spatial and demographic characteristics.⁹⁸ Almost 70 per cent of Aboriginal people live outside census metropolitan areas, in rural reserves, smaller urban centres, and rural and isolated areas off-reserve. Over time, however, there has been a large shift from reserves to cities. While those Aboriginals who live in urban centres never represent more than seven per cent of the urban population, they are over-represented in the poorest urban neighbourhoods. The result is a challenge for service delivery targeted at the special needs of aboriginal people, a challenge that is compounded by complexities of jurisdiction, particularly in dealing with both on- and off-reserve people.

It is likely that aboriginal economic well-being will, if anything, be even higher on medium-term policy agendas. Progress has been slow. And the number of Aboriginal people is growing. Compared with the non-aboriginal population, Aboriginals are young and have high birth rates. These atypical demographics, as well as the geographical locations of Aboriginal peoples, affects their disadvantaged position and has considerable impact on demand for and delivery of programs and services.

Policy implications are potentially large

If disadvantage is increasingly located in five quite well-defined groups, then some quite different approaches to policy-making open up. These are discussed in the fourth chapter.

A.10 Economic security

The final component of economic well-being discussed in the second chapter is economic security. The most serious risks are associated with longer-term or repeated spells of joblessness and with marginal labour force attachment over long periods — particularly in households where no other person has a steady, good job. The key examples are being

⁹⁸The data and much of the content of the paragraph were taken from Juteau (2000).

jobless and poor for reasons associated with retirement and old age, sickness and disability, and unemployment.

Trends have been positive on most fronts, but not on others. To repeat, the portion of the population that is jobless has been falling. Poverty in old age has been largely eliminated. Two-earner households have grown, making it easier to share risk. Unemployment remains high, but employment growth is also high (almost, but not quite, keeping up with the growth of potential new entrants).

The challenges for the future may be lessened on the unemployment side by anticipated labour shortages. These are likely to reduce the risks associated with frictional unemployment as well as all unemployment that arises from demand-side factors. Further, as two-earner families increasingly become the norm, shorter and infrequent spells of unemployment will become even less important sources of major insecurity.

As well, economic security, as we measure it today, may receive less weight in social policy thinking. It may be that some of the “insecurities” that we now measure may reflect an earlier set of values where the reference point was a single-earner family and a full-time job for life. Short periods of joblessness may be seen as smaller source of insecurity in the future than was the case in the past.⁹⁹

On the other hand, things could get worse:

- In one view, the main source of insecurity will continue to lie in the labour market. Lower demand for low-skilled people and the increase of contingent workforces can create a situation of marginal lifetime attachments to the labour force for some, particularly the less skilled. Today large numbers of young people are leaving school with educational attainments that are considerably less than will be required in tomorrow’s labour market.
- Another view sees growing insecurity arising in families — with unattached adults and single-earner families become increasing vulnerable, as two-earner families become the norm.
- Still another view is that, in a world where a much higher degree of life-course flexibility becomes the norm for most, those people who are not flexible (for example as the result of multiple disadvantages) will become less secure and they will grow in numbers. The concentration of disadvantage into five at-risk groups may be a worrying signal that this is already happening.

Unfortunately, the evidence is not strong enough to allow much certainty about future trends, or about the way we will define and value security in the future. This uncertainty lies behind the emphasis on conducting strategic studies in this area, as set out in the fourth chapter and elaborated in the final chapter.

⁹⁹Note as well that the analysis of Chapter 2 suggested that the security element of the Index of Economic Well-Being seemed to be a weak link, showing counterintuitive trends.

A.11 Fiscal trends and projections

This final section of the Appendix turns from a discussion of trends and possible future directions in the determinants of economic well-being to a review of trends and possible future directions in the capacity to finance social programming.

Total public social spending in Canada has been rising slowly for many years, but levelled off and fell in the 1990s for a variety of reasons, including fiscal pressures. Figure 18 shows the composition of social spending¹⁰⁰ (including health and pensions, as well as the policies under review in this paper). The policies within the scope of this paper are the three at the bottom: skills acquisition (provincial education plus various federal supports including active employment programming) and income security (with Employment Insurance and its predecessors broken out separately).

Figure 19 uses the same data, but is not cumulative — showing spending on the various components taken separately. It clearly shows the reductions in spending in the 1990s in all areas except pensions.

Age-related fiscal pressures will continue to grow — more than in the United States

Fiscal pressures are likely to continue. Recent OECD projections suggest that, if all else is held equal,¹⁰¹ age-related social spending in Canada might grow as a percentage of GDP over the next half century by about 8.7 per cent — a little more than in other countries and well above a projected increase of 5.5 per cent in the United States. These projections are based on the same assumptions as found in the second scenario of producer-consumer ratio found in Chapter 3.

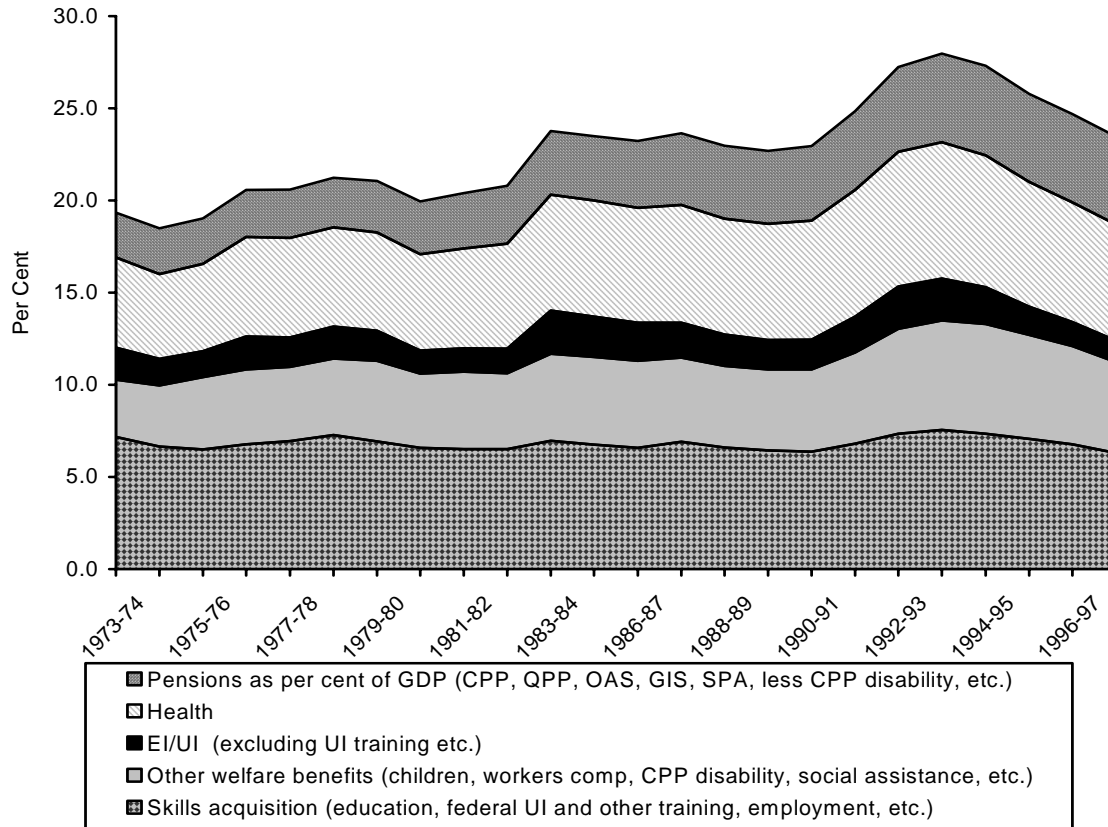
The Canadian increase results mainly from pensions expenditure, followed by health care costs. Spending on child benefits and education might not change greatly. The American figures show smaller pension increases but greater health care increases.

The result of increased spending (all things being equal) would cause an increase in the Canadian deficit of about 10 percentage points of GDP over the next half century — the main cause being the payout of pensions. This is similar to figures for other countries and a higher pressure than in the United States. Higher spending should be no surprise. Aging is bound to cost more money unless something else changes. Note, as well, that these international projections are considerably reduced from projections even a few years ago, reflecting reforms in many countries and improved overall fiscal positions.

¹⁰⁰For reasons of comparability, the data in these charts is broken out in a somewhat different way than the classification that was used in the main text. The data in the charts were calculated by the author based on a rearrangement of HRDC's data on total public social spending. The various programs were reorganized to more nearly approximate the classification system used in this report. The legend to the charts shows the main groupings used.

¹⁰¹All of these numbers are based on the rather silly assumption that existing policies (including already announced changes) will remain unchanged for 50 years and that all changes are driven by demographic pressures. While this is the normal and inevitable assumption made in projections, it means that projections that far in the future must be restricted to a very narrow range of technical uses. Predicting what the actual fiscal implications might be is, most certainly, not among those uses.

Figure 18: Public Social Spending as a Percentage of GDP, Canada



Source: Author's calculations

These OECD projections have been tested for sensitivity against a range of demographic, unemployment, and immigration scenarios. The basic story remains unchanged except for a later retirement scenario, which could have a big effect. In many countries, an increase in effective retirement ages of only about a year would offset the negative fiscal effects of aging on pension costs.

Will health and pensions crowd out other social spending?

A commonly expressed concern is that the pension and health costs associated with an aging population could crowd out social spending directed to working-age or younger people.

Figure 20 shows that the total spending on income security (apart from pensions) and skills acquisition has indeed been falling when compared with health and pension spending. Whether that continues in the future will depend on fiscal factors outside the scope of this paper.

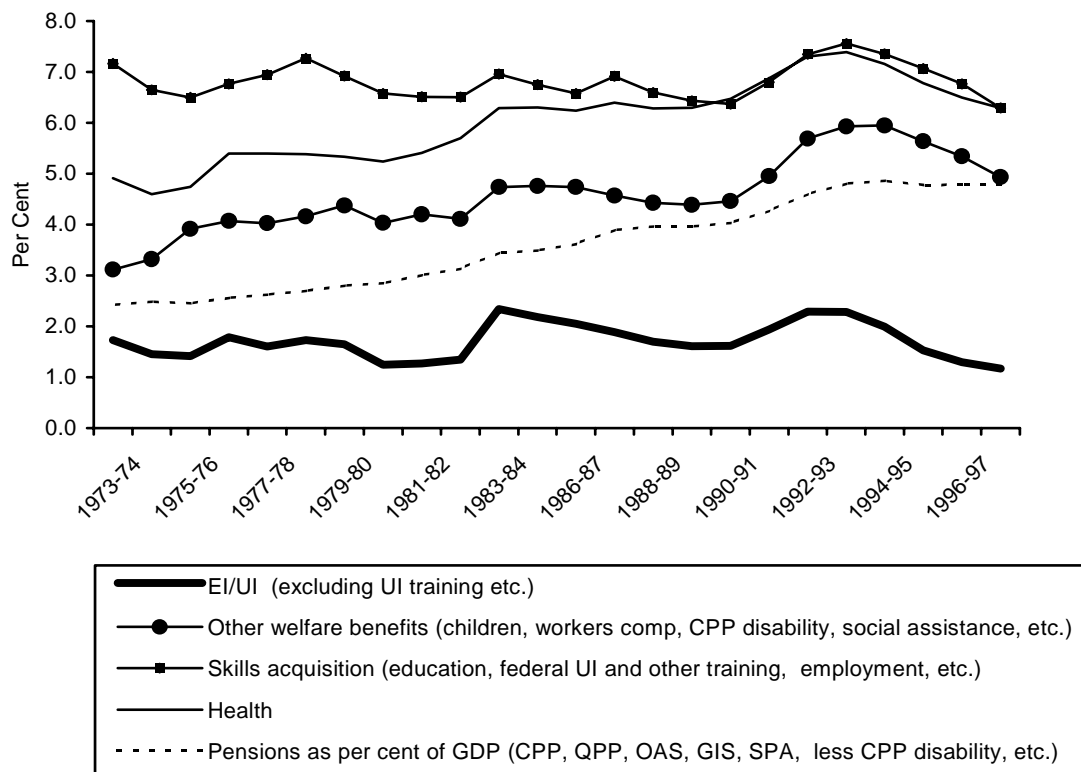
Several factors need to be taken into account when looking at these crowding-out pressures.

First, expenditure cuts do not translate directly into drops in economic well-being. In looking to the future, it matters a lot whether spending cuts resulted in drops in economic

well-being or whether they increased efficiency. If the former, there will be pressures to restore spending:

- Indeed, for some — the glass-half-empty proponents of the second chapter — the cuts represent a major deterioration in government services and support. The consequence will be a large social deficit that will be hard to fill and that will dominate agendas for years to come.
- However, the evidence seems to suggest that the spending cuts may not have large longer-term consequences. The second chapter suggests that trends in economic well-being have been quite stable or positive and that much of the dip in the 1990s was cyclical in character. In education and active labour market programs at least, linkages between expenditures and outcomes are weak to begin with.

Figure 19: Social Expenditure as a Percentage of GDP



Source: Author's calculations.

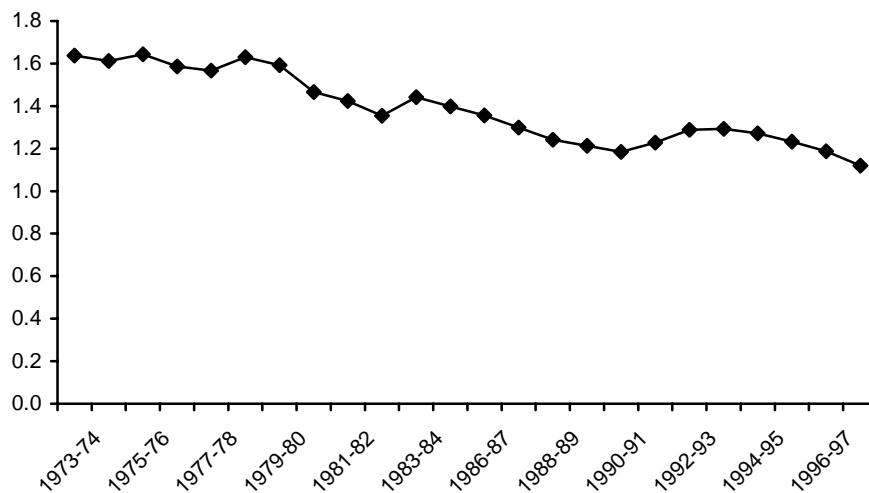
Second, Canada faces strong aging pressures — but there are offsets:

- We are often complacent about future demographic challenges, comparing the youthful Canadian model to the aged societies of Japan and Germany and other European countries. Yet, in terms of the rate of change in dependency ratios over the coming

decades, the situation in Canada¹⁰² is not better than in competitor countries. Japan, for example, is already experiencing the effects of population aging and will reach a stable plateau much sooner than Canada.¹⁰³

- However, working in the other direction, Canada's taxation of private pensions means the taxes on income from occupational pensions and from RRSPs are paid when the income is received, not when the contributions are made. This means that, compared with other countries,¹⁰⁴ more tax revenue will be collected when it is most needed — when pensions and health care costs are highest.

Figure 20: Ratio of Non-Pension Income Security (Including Education) to Health and Pension Spending



Source: OECD

In summary, there is no way of projecting many of the factors that will determine the capacity to finance social programming in 5 to 10 years' time. Aging is the only factor that can be projected with any confidence and, if one assumes no change in retirement patterns, then public spending directed to older people will certainly rise and possibly crowd out spending on other age groups. However, the policy goal should be to raise effective retirement ages and success in so doing will have positive fiscal consequences. None of the scenarios discussed in the main text should be eliminated as a result of fiscal considerations, since all will encourage later retirement.

¹⁰²On a related point, as Mérette (2000) points out, the effects of aging are quite different in different regions of the country, suggesting the advisability of examining the regional fiscal capacity before the main effects of aging are felt. As noted, the issues involved extend far beyond the scope of this paper and cannot be dealt with in a paper on economic well-being policies. Equally, however, it will be that such a larger review does take place before the baby boom generation begins retiring in large numbers.

¹⁰³The international comparisons are an important reminder that many factors in addition to the age structure of population are at play. Demographics alone would be a misleading predictor of economic trends. The relatively poorer recent performance of older countries such as Japan and Germany likely results mainly from factors not directly related to age — such as the structural challenges associated with reunification in Germany, financial market factors and institutional arrangements that affect retirement patterns.

¹⁰⁴Only a few countries have structured their tax system in such a fortunate manner. The Netherlands is another and it is already forecasting that the increased taxes paid by older people are likely to cover much of the added costs of aging (OECD, 2001). There are different estimates of the size of this effect in Canada, with recent readings from Mérette (2000) being particularly positive.

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